



DATE: MAY 30, 2019

FROM: FINANCIAL PLANNING & ANALYSIS

SUBJECT: RESOLUTION NO. _____ - ADOPTION OF PROPOSED FISCAL YEAR 2019/20 ANNUAL BUDGET

SUMMARY:

Staff requests approval of the Fiscal Year (FY) 2019/20 Proposed Annual Budget (Proposed Budget) of \$1,608,921,985. The Proposed Budget is aligned with the 2018 – 2022 Strategic Plan (Strategic Plan) 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, promoting efficient operations, as well as forging strong and lasting relationships with its stakeholders.

The Proposed Budget includes sources and appropriations of funds as follows:

TABLE 1: SOURCES AND APPROPRIATIONS OF FUNDS

Sources:		Appropriations:	
Operating Receipts	\$ 499,717,401	Operating Expenses	\$ 278,046,454
Non-Operating Receipts	55,607,461	Non-Operating Expenses	82,402,306
Grant Receipts (Capital)	9,711,918	Capital Budget	173,118,451
Debt Issuance Proceeds	204,624,101	Debt Repayments	267,110,000
		Accrual Adjustments	(23,937,461)
Available Cash:		Projected Year-End Balances:	
Unrestricted Funds	752,760,896	Unappropriated Balance	759,550,411
Restricted Funds	86,500,208	Restricted Cash	72,631,824
Total Sources	\$1,608,921,985	Total Appropriations	\$1,608,921,985

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.

In conjunction with approval of the Proposed Budget and in conformance with the Board-approved Financial Policies, staff requests a transfer of \$34,142,007 from the Harbor Revenue Fund to the Harbor Special Operating Fund. As both the Harbor Revenue Fund and the Harbor Special Operating Fund are Unrestricted Funds, there will be no change to neither the Unrestricted Fund nor the Unappropriated Balance provided within the above table as a result of this transfer.

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

RECOMMENDATIONS:

It is recommended that the Board of Harbor Commissioners:

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 City of Los Angeles CEQA Guidelines;
2. Adopt the Fiscal Year 2019/20 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 2019/20 Proposed Annual Budget documents in the implementation of this budget;
4. Approve the transfer of \$34,142,007 from the Harbor Revenue Fund, Account 11010, Center 7000, Program 000 to the Harbor Special Operating Fund, Account 11035, Center 7000, Program 000; and
5. Adopt Resolution No. _____.

DISCUSSION:**Financial Performance Goals**

Projected financial performance for FY 2019/20 relative to the current year is summarized below:

TABLE 2: KEY BUDGET COMPONENTS

	FY 2018/19 Adopted Budget	FY 2018/19 Forecast	FY 2019/20 Proposed Budget	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Cargo Volumes (TEUs)	9.24M	9.53M	9.40M	1.7%	(1.4%)
Operating Revenues	\$509.5M	\$504.4M	\$499.7M	(1.9%)	(0.9%)
Operating Expenses	\$280.2M	\$260.4M	\$278.0M	(0.8%)	6.8%
Income before Depreciation	\$229.3M	\$244.0M	\$221.7M	(3.3%)	(9.1%)
Net Income	\$63.3M	\$120.2M	\$27.4M	(56.7%)	(77.2%)
Capital Improvement Program	\$91.0M	\$61.8M	\$144.4M	58.8%	133.8%

The Proposed Budget enables the Harbor Department to meet debt rating and debt service coverage metrics set forth in its Financial Policies and Strategic Plan.

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

TABLE 3: KEY FINANCIAL METRICS

Key Financial Metric	Minimum	Proposed FY 2019/20
Debt Rating	AA	AA
Debt Service Coverage Ratio	2.0x	2.6x
Operating Margin	45.0%	44.4%

Consistent with the four primary objectives outlined within the Strategic Plan, the Proposed Budget facilitates: (i) world-class infrastructure that promotes growth; (ii) a secure, efficient, and environmentally sustainable supply chain; (iii) improved financial performance of Port assets; and (iv) strong relationships with stakeholders. Transmittal 1 provides a detailed narrative as to how the Proposed Budget supports the Strategic Plan.

Budget Development Process

Staff finalized budget priorities and targets in late October 2018, and divisions submitted their proposed budgets in December 2018. After holding internal discussions with senior management in January and February 2019, Harbor Department staff presented the Proposed Budget to the Board in April 2019.

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 April, the proposed cargo volumes were increased from 9.228 million twenty-foot equivalent units (TEUs) to 9.400 million TEUs, primarily increasing proposed Operating Revenues by \$1.9 million from \$497,804,319 to \$499,717,401.

In addition, subsequent adjustments and changes were made to the FY 2019/20 proposed Operating Expenses as follows:

TABLE 4: SUMMARY OF CHANGES TO PROPOSED TOTAL OPERATING EXPENSES FOLLOWING APRIL 2019 BOARD MEETING

Proposed Total Operating Expenses, April 2019	\$ 277,930,512
Additions / (Subtractions):	
Ocean Common Carrier Incentive Program	\$288,575
Outside Services for Environmental Government Advocacy	78,827
City Services for Bond Assistance Program	(26,500)
Salaries & Benefits Changes	(224,960)
Proposed Total Operating Expenses, June 2019	\$ 278,046,454

Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2019 through June 30, 2020.

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

Sources of Funds for Proposed Budget

Sources of funds for the Proposed Budget are expected to increase relative to the FY 2018/19 Adopted Budget (Adopted Budget) due to higher Non-Operating Receipts, Grant Receipts for Capital projects, and Proceeds from Debt Issuance.

**TABLE 5: COMPARISON OF PROPOSED BUDGET SOURCES OF FUNDS
TO THE FY 2018/19 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2018/19	Forecast FY 2018/19	Proposed Budget FY 2019/20	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Receipts	\$ 509,455	\$ 504,369	\$ 499,718	(1.9%)	(0.9%)
Non-Operating Receipts	31,843	56,657	55,607	74.6%	(1.9%)
Grant Receipts (Capital)	4,825	5,259	9,712	101.3%	84.7%
Debt Issuance Proceeds	-	-	204,624		
Unrestricted Funds	698,981	672,166	752,761	7.7%	12.0%
Restricted Funds	87,136	86,289	86,500	(0.7%)	0.2%
Total Sources	\$ 1,332,240	\$ 1,324,740	\$ 1,608,922	20.8%	21.5%

Operating Receipts

Comprising 31.1% 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 2018/19 Estimate Forecast (Forecast).

**TABLE 6: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS
TO THE FY 2018/19 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2018/19	Forecast FY 2018/19	Proposed Budget FY 2019/20	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Shipping Services	\$ 423,600	\$ 411,604	\$ 408,973	(3.5%)	(0.6%)
Rentals	55,927	66,336	64,768	15.8%	(2.4%)
Royalties and Fees	10,295	3,833	3,850	(62.6%)	0.4%
Clean Truck Fees	2,148	1,684	3,500	62.9%	107.9%
Other Operating	17,485	20,912	18,626	6.5%	(10.9%)
Total Operating Receipts	\$ 509,455	\$ 504,369	\$ 499,717	(1.9%)	(0.9%)
Cargo Volumes (TEUs in Thousands)	9,244	9,534	9,400	1.7%	(1.4%)

During FY 2018/19, cargo volumes are projected to increase by about 4.0% relative to the prior year FY 2017/18 Actuals, and are expected to be 3.1% higher than budget. Looking forward to FY 2019/20, cargo volumes are expected to grow by 1.7% relative to the Adopted Budget, but decline by 1.4% relative to the Forecast.

Operating Receipts will continue to be driven by cargo-related activities as Shipping Services Revenue is anticipated to comprise approximately 81.8% of the \$499.7 million in projected total Operating Receipts. The reduction in total Operating Receipts as compared to the Adopted Budget primarily results from lower anticipated revenue from

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

Shipping Services, due to lower expected rates per TEU, and Royalties & Fees, partially offset by increases to Rentals, Clean Truck Fees, and Other Operating Revenues.

Non-Operating Receipts

Proposed Non-Operating Receipts of \$55.6 million include \$40.8 million in grants (including pass-through grants), \$13.8 million in investment and interest income, and \$1.0 million in fees and other non-operating revenues. The California Energy Commission and California Air Resources Board are providing the majority of the pass-through grant funding for various demonstration projects aimed towards the reduction of harmful air emissions. Proposed Non-Operating Receipts are anticipated to increase relative to the Adopted Budget primarily due to higher pass-through grant receipts, while declining slightly compared to the Forecast due to the collection of a large one-time settlement in FY 2018/19.

Capital Grant Receipts

Anticipated to comprise \$9.7 million of the Proposed Budget, Capital Grant Receipts are expected to increase by \$4.9 million relative to the Adopted Budget. Major projects receiving capital grant funding in FY 2019/20 include the Port Police Radio System Upgrade, Dock Upgrades at Berths 80-83, the SR-47/Vincent Thomas Bridge/Front Street Connector Project, and the South Wilmington Grade Separation.

Proceeds from Debt Issuance

The Proposed Budget includes \$204.6 million in estimated proceeds from refunding (refinancing) Series 2009A and Series 2009C revenue bonds. Due to a favorable market interest rate environment, the Harbor Department is expected to realize net present value savings in its debt service payments that exceed Financial Policy minimums. The proposed refunding will result in lower annual debt service payment requirements and in turn lower cash outlays to service debt. The lower debt service payments and cash outlays will positively impact the Harbor Department's financial metrics, such as the Debt Service Coverage Ratio.

Available Cash-on-Hand

The Proposed Budget includes Restricted Funds and Unrestricted Funds, which comprise 5.4% and 46.8% 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 \$86.5 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 2019/20, the UB may be used,

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

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 \$752.8 million in unrestricted cash which, based upon proposed Operating Expenses of \$278.0 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 by 20.8% relative to the Adopted Budget, due primarily to an increase in Non-Operating Expenses (resulting from a change in accounting standards for the capitalization of interest), Debt Repayments, and funding for the Capital Improvement Program within the Capital Budget.

**TABLE 7: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS
TO THE FY 2018/19 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2018/19	Forecast FY 2018/19	Proposed Budget FY 2019/20	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Expenses	\$ 280,179	\$ 260,441	\$ 278,047	(0.8%)	6.8%
Capital Budget	153,569	121,610	173,118	12.7%	42.4%
Non-Operating Expenses	22,254	11,134	82,402	270.3%	640.1%
Debt Repayments and Accruals	63,308	92,294	243,173	284.1%	163.5%
Unappropriated Balance (UB)	728,799	752,761	759,551	4.2%	0.9%
Restricted Cash	84,131	86,500	72,631	(13.7%)	(16.0%)
Total Appropriations	\$ 1,332,240	\$ 1,324,740	\$ 1,608,922	20.8%	21.5%

Operating Expenses

The FY 2019/20 Proposed Budget includes total Operating Expenses of \$278.0 million, which represent a 0.8% decrease relative to the Adopted Budget and a 6.8% increase relative to the Forecast. The increases in total Operating Expenses relative to the Forecast are expected to be driven mostly by increases in Salaries and Benefits and City Services, while reductions in Outside Services are decreasing Operating Expenses as compared to the Adopted Budget.

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

TABLE 8: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES TO THE FY 2018/19 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2018/19*	Forecast FY 2018/19	Proposed Budget FY 2019/20	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Salaries and Benefits	\$ 142,459	\$ 133,726	\$ 145,911	2.4%	9.1%
Marketing and Public Relations	3,246	3,235	3,164	(2.5%)	(2.2%)
Travel	1,074	1,002	1,102	2.6%	9.9%
Outside Services *	43,384	41,514	39,638	(8.6%)	(4.5%)
Materials and Supplies	8,328	8,062	7,767	(6.7%)	(3.7%)
City Services *	52,815	51,585	55,375	4.8%	7.3%
Allocations to Capital	(13,236)	(14,426)	(16,296)	23.1%	13.0%
Other Operating Expenses	42,108	35,742	41,385	(1.7%)	15.8%
Total Operating Expenses	\$ 280,178	\$ 260,440	\$ 278,046	(0.8%)	6.8%

*Includes \$616,500 in transfers from Outside Services to City Services, approved by the Board in FY 2018/19.







Salaries and Benefits of \$145.9 million (net of \$13.3 million in capitalization) have been included within the Proposed Budget in order to support 999 authorized positions. Based upon historical information, 8.5% of Harbor Department positions are projected to be vacant at any given point in FY 2019/20. Therefore, although 999 positions are authorized within the Proposed Budget, the \$145.9 million Salaries and Benefits budget represents funding for an average of 915 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, \$159.2 MILLION)

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2019/20	Proposed Salaries & Benefits as a % of Total
Port Police	229	\$ 35,439	22.3%
Construction and Maintenance	290	34,574	21.7%
Engineering	91	16,820	10.6%
Construction	69	13,230	8.3%
Port Pilots	31	11,986	7.5%
Cargo Marketing, Planning, & Real Estate Divisions	60	9,092	5.7%
Finance	60	8,303	5.2%
Information Technology	45	8,293	5.2%
Human Resources & Contracts and Purchasing	37	6,173	3.9%
Stakeholder Engagement Bureau	34	5,335	3.4%
Executive & Commission	20	4,611	2.9%
Environmental Management	28	4,567	2.9%
Goods Movement	5	789	0.5%
Total	999	\$ 159,212	100.0%

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

Relative to the Adopted Budget, Proposed Salaries and Benefits are projected to increase by \$3.5 million due to:

-  \$3.8 million in Memorandum of Understanding (MOU) mandated increases to salaries, salary step increases, and position upgrades;
-  \$3.0 million higher pension and health care contributions;
-  \$0.2 million in lower direct Salaries and Benefits allocations to capital;
-  \$0.2 million in higher bonuses and miscellaneous employee benefits pay; partially offset by:
-  \$3.3 million in higher Salary and Benefits Attrition Savings; and
-  \$0.4 million in a higher true-up/refund for retirement plan payments.

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 decreasing by 2.5% relative to the Adopted Budget and 2.2% relative to the Forecast. Decreases in sponsorships, advertising, and foreign trade representation are partially offset by an increase in business promotional expenses.

Travel expenses of \$1.1 million are primarily allocated towards marketing efforts to retain and grow business, and promote employee development. Of the \$1,026,446 in proposed domestic and foreign travel expenses, \$280,500 or 27.3% is budgeted in the Cargo Marketing division and \$268,850 or 26.2% in the Executive Office for marketing, and trade development and retention. The remainder is budgeted in various divisions for representation, legislative advocacy, training, and other business purposes. The proposed travel budget represents a 2.6% increase relative to the Adopted Budget as marketing and executive staff continue to increase customer outreach efforts.

Outside Services of \$39.6 million are \$3.7 million lower relative to the Adopted Budget as reductions of \$2.4 million in information technology (IT) systems consulting services; \$1.3 million in hiring hall labor expenses; \$0.9 million in miscellaneous professional services (including the Workforce Development Training Center, Derrick Barge Broker Services, Naval Architect, and Joint Rail Study); and \$0.6 million in legal fees and services are partially offset by increases that include \$1.3 million for maintenance dredging and \$0.2 million for IT software maintenance.

The largest components of proposed Outside Services are \$10.9 million or 27.4% for IT services (including information systems consulting, and maintenance for software and hardware), \$8.0 million or 20.3% for maintenance services (including dredging, wharves, buildings, equipment, open facilities & land, and grounds); and \$6.9 million or 17.4% for environmental assessment and remediation services, among others as illustrated in the table below. Approximately \$1.5 million in grant reimbursements are expected to be applied against \$2.6 million in Port security camera maintenance service costs (which would result in \$1.1 million of net expense).

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

TABLE 10: PROPOSED OUTSIDE SERVICES

(\$ in Thousands)	Proposed Budget FY 2019/20	Proposed as a % of total
IT Systems Consulting and Hardware / Software Maintenance	\$ 10,875	27.4%
Maintenance - Dredging, Wharf, Building, Equipment, Open Facilities and Land, and Grounds	8,029	20.3%
Environmental Remediation & Site Restoration	6,893	17.4%
Cruise Terminal Operations	2,654	6.7%
Security Camera Maintenance & Repair	2,600	6.6%
Hiring Hall Salaries and Benefits	1,884	4.8%
Outside Counsel	1,545	3.9%
Other	5,158	13.0%
Total Outside Services	\$ 39,638	100.0%

Materials and Supplies spending of \$7.8 million represents a \$560,923 reduction compared to the Adopted Budget and a \$294,877 reduction compared to the Forecast. Reduced spending for parts & materials, operating supplies, and tools & equipment drives the year-to-year reductions relative to both the Adopted Budget and Forecast, which are partially offset by increases to equipment fuels and landscape & gardening supplies.

City Services of \$55.4 million are for services rendered by other City departments for Port operations. The primary drivers of this component include \$34.0 million for Fire Department services, \$11.0 million for recreational facilities operated by the Department of Recreation and Parks (i.e., Cabrillo Marine Aquarium, parks, museums), and \$6.0 million for City Attorney services. Proposed expenses are 4.8% higher compared to the Adopted Budget and 7.3% higher compared to Forecast 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 increase relative to the Adopted Budget and Forecast as CIP spending will be increasing in the coming year.

Other Operating Expenses are summarized as follows:

TABLE 11: COMPARISON OF PROPOSED BUDGET OTHER OPERATING EXPENSES TO THE FY 2018/19 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2018/19	Forecast FY 2018/19	Proposed Budget FY 2019/20	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Utilities	\$ 18,834	\$ 18,103	\$ 18,037	(4.2%)	(0.4%)
Container & Cruise Incentives	1,200	990	8,200	583.3%	728.3%
Environmental Initiatives	4,273	6,273	4,273	0.0%	(31.9%)
Insurance	3,327	2,501	3,034	(8.8%)	21.3%
Litigation/Workers' Comp Claims	2,450	2,450	2,450	0.0%	0.0%
Telephone	1,764	1,761	1,778	0.8%	1.0%
Provision for Bad Debt	6,864	250	250	(96.4%)	0.0%
Other Operating Expenses	3,396	3,414	3,363	(1.0%)	(1.5%)
Total Other Operating Expenses	\$ 42,108	\$ 35,742	\$ 41,385	(1.7%)	15.8%

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

The \$18.0 million appropriation for Utilities represents 43.6% of total Other Operating Expenses within the Proposed Budget. Consisting primarily of \$15.6 million for electricity expenses, the overall proposed utility spending is budgeted to decrease slightly in the coming year. Proposed electricity expenses consist of \$12.0 million in Alternative Maritime Power (AMP™) related expenses, approximately 95% of which are reimbursed by customers.

The Proposed Budget also includes \$8.2 million for container and cruise incentive programs to drive business. For the continuation of the Cruise Incentive Program, \$1.2 million has been allocated. An additional \$7.0 million has been budgeted for two new incentive programs designed to increase cargo at the Port. The Ocean Common Carrier (OCC) Incentive Program, budgeted at \$5.8 million, will provide a financial incentive for OCCs whose TEU volumes exceed certain criteria set by the program and the Ultra-Large Container Vessel Incentive Program, budgeted at \$1.2 million, will provide a financial incentive for OCCs to bring their largest ships to call at the Port.

The \$4.3 million appropriation for environmental initiatives includes \$1.7 million in incentive payouts for the Vessel Speed Reduction Program, \$1.1 million for administrative costs for the Clean Truck Program, \$1.0 million for incentive payouts for the Technology Advancement Program, and \$0.5 million for incentive payouts related to the Environmental Shipping Index.

Capital Budget

The Proposed Capital Budget of \$173.1 million is projected to be 12.7% higher relative to the Adopted Budget and 42.4% higher relative to the Forecast. Relative to both the Adopted Budget and Forecast, CIP Spending within the Proposed Budget has increased in all categories, particularly for Terminal Improvement, Public Access/Environmental Enhancement, and Maritime Service projects, summarized as follows:

TABLE 12: COMPARISON OF PROPOSED CAPITAL BUDGET
TO THE FY 2018/19 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2018/19	Forecast FY 2018/19	Proposed Budget FY 2019/20	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Capital Improvement Program:					
Terminal Improvements	\$ 31,584	\$ 17,475	\$ 64,734	105.0%	270.4%
Transportation Projects	10,020	5,357	11,685	16.6%	118.1%
Security Projects	4,698	1,761	8,510	81.1%	383.2%
Public Access / Env. Enhancements	13,541	14,107	21,455	58.4%	52.1%
Maritime Services	31,131	23,075	38,047	22.2%	64.9%
Capital Improvement Program, Total	90,974	61,775	144,431	58.8%	133.8%
Capitalized Expenditures*					
Land & Property Acquisition	1,000	765		(100.0%)	(100.0%)
Equipment Purchases	15,982	12,074	12,391	(22.5%)	2.6%
Total Capital Budget	\$ 153,569	\$ 121,609	\$ 173,118	12.7%	42.4%

*Capitalized Interest payments, as a portion of Capitalized Expenditures, are \$32.4 million for the Adopted Budget, \$32.6 for the Forecast, and \$0.0 for the Proposed Budget, as interest payments will no longer be capitalized in FY 2019/20 due to a change in accounting standards.

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

Capital Improvement Program (CIP) - The \$144.4 million Proposed CIP Budget is 58.8% higher relative to the Adopted Budget and 133.8% higher relative to the Forecast.

In FY 2019/20, the Proposed CIP dedicates \$64.7 million or 44.8% of funding to Terminal Improvement projects with funding for these projects increasing by 105.0% or \$33.2 million as compared to the Adopted Budget. Proposed funds for Terminal Improvements include \$29.5 million for wharf and backland improvements at the EverPort Container Terminal; \$14.7 million for the design and construction at multiple liquid bulk facilities for Marine Oil Terminal Engineering Maintenance Standards (MOTEMS) compliance; \$10.5 million for wharf restoration and enhancements at the Pasha Terminal; \$2.6 million for the installation of two elevators, modernization of two new escalators, and the repair of the vehicle and pedestrian ramp at the World Cruise Center; and \$7.4 million for other terminal improvements throughout the Port.

The budget for Public Access/Environmental Enhancement projects is \$21.5 million or 14.9% of the FY 2019/20 Proposed CIP Budget, which includes \$14.7 million for the construction of the San Pedro Public Market Promenade & Town Square and other improvements along the San Pedro waterfront. An additional \$6.8 million is allocated for continued development of the Wilmington Waterfront including \$5.5 million for the construction of the Wilmington Waterfront Promenade, and \$1.3 million for the design of the Wilmington Youth Sailing & Aquatic Center and other improvements.

Transportation projects (roadway and rail improvements) are budgeted at \$11.7 million or 8.1% of the Proposed CIP Budget and include \$5.5 million for rail yard and track connections enhancements at Berth 200; \$2.1 million to eliminate a rail track gap between the West Basin area of the Port and the Alameda Corridor; and \$4.1 million for a variety of other projects throughout the Harbor District to promote the faster, safer, and more efficient movement of trade goods.

In addition, the Proposed CIP Budget includes \$46.5 million for Security and Maritime Services projects. To improve security at the Port, the FY 2019/20 CIP Budget includes the replacement and upgrade of the Port Police Radio and Computer Aided Dispatch/Records Management systems, and the installation of a Fixed License Plate Reader System. The Maritime Services budget of \$38.0 million includes \$14.0 million in unallocated funding for unanticipated projects, \$11.0 million in repairs and improvements at the Harbor Administration Building, \$3.5 million to replace two pilot boats, and \$9.5 million for repairs and upgrades to various facilities throughout the Port that support departmental operations. Transmittals 1 and 2 contain a complete listing of proposed projects.

In conjunction with the Proposed FY 2019/20 CIP Budget, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2019/20 and provides estimated allocations for the subsequent four years along with total project costs. Over the five-year period extending from FY 2019/20 to FY 2023/24, the Harbor Department expects to spend approximately \$573.7 million on capital projects throughout the Port. The plan is also utilized for long-term planning as it

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

has been incorporated into the Harbor Department's ten-year financial forecast. As the Harbor Department prepares its budget on an annual basis in conformance with the City Charter, only the FY 2019/20 portion of this plan is being brought before the Board for adoption.

Capitalized Expenditures include indirect overhead allocations that support the entire, global CIP. Capitalized expenditures within the Proposed Budget are expected to decrease relative to the Adopted Budget due to a new accounting standard that does not allow for the capitalization of interest.

Equipment Purchases of \$12.4 million within the Proposed Budget for equipment such as vehicles, vessels, and IT hardware are expected to decrease by 22.5% relative to the Adopted Budget and increase 2.6% compared to the Forecast.

Non-Operating Expenses

Budgeted at \$82.4 million, proposed Non-Operating Expenses are expected to be driven by \$39.2 million in state grant pass-through expenses; \$33.0 million in interest expenses, which can no longer be capitalized due to a change in accounting standards; \$7.4 million in costs for cancelled capital projects; \$2.2 million in bond issuance costs; \$0.5 million in commercial paper issuance costs; and \$110,000 in other non-operating expenses. Proposed Non-Operating Expenses are expected to be higher relative to the Adopted Budget and Forecast due primarily to increased state grant pass-through expenses and increased interest payments resulting from the accounting rule change regarding the capitalization of interest.

Proposed Transfer to the Harbor Special Operating Fund

Section 5 of the Harbor Department's Financial Policies states that the Harbor Department must establish financial reserves to provide for liquidity to maintain strong debt ratings. Currently, the Harbor Department's reserve funds include an Emergency/ACTA Fund, Debt Service Reserve Fund, Harbor Special Operating Fund, and a variety of mitigation reserve funds.

As dictated by the Harbor Department's Financial Policies, the target balance in the Harbor Special Operating Fund should be the difference between the average of the Harbor Department's operating expenses over a five-year period and the balance within the Emergency/ACTA Fund. The five-year average period is comprised of audited operating expenses for the four previous most recent fiscal years and the adopted budget for operating expenses for the current fiscal year.

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2019/20 BUDGET

Given that Proposed Total Operating Expenses are anticipated to increase by 6.8% relative to the Forecast, staff is recommending that \$34,142,007 be transferred from the Harbor Revenue Fund to the Harbor Special Operating Fund in order to meet the Harbor Special Operating Fund's target balance requirements as provided within the Harbor Department's Financial Policies. The \$34,142,007 transfer has been calculated as follows:

FY 2015 Operating Expenses – Audited	\$ 234,249,686
FY 2016 Operating Expenses – Audited	226,261,466
FY 2017 Operating Expenses – Audited	227,675,715
FY 2018 Operating Expenses – Audited	236,953,163
FY 2019 Operating Expenses – Adopted	280,179,038
Equals: Five Years of Operating Expenses	\$ 1,205,319,070
<hr/>	
Five Year Average Operating Expenses	\$ 241,063,814
Less: Special Operating Fund Balance – Current	(157,399,323)
Less: Emergency/ACTA Fund Balance – Current	(49,522,484)
Equals: Required Transfer	\$ 34,142,007

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the FY 2019/20 Annual Budget, which is an administrative activity. This action does not constitute approval of specific projects. Any projects financed through the Resolution would require separate environmental analysis and Board approval. 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 City of Los Angeles CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the FY 2019/20 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department's operations in the next fiscal year. The \$1,608,921,985 Proposed Budget is aligned with the Port's 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 2019/20 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 2019/20 Proposed Annual Budget
2. Five-Year Capital Expenditure Plan

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



JEFFREY STRAFFORD
Director of Financial Planning & Analysis



MARLA BLEAVINS
Deputy Executive Director &
Chief Financial Officer

APPROVED:



EUGENE D. SEROKA
Executive Director

Author: J. Stafford
MB:JS:FK:MM:JY:JA