



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: MAY 25, 2020

FROM: FINANCIAL PLANNING & ANALYSIS

**SUBJECT: RESOLUTION NO. _____ - ADOPTION OF
PROPOSED FISCAL YEAR 2020/21 ANNUAL BUDGET**

SUMMARY:

Staff requests approval of the Fiscal Year (FY) 2020/21 Proposed Annual Budget (Proposed Budget) of \$1,499,160,339. 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	\$ 460,090,279	Operating Expenses	\$ 277,826,104
Non-Operating Receipts	76,880,189	Non-Operating Expenses	96,434,344
Grant Receipts (Capital)	16,228,421	Capital Budget	190,268,148
Debt Issuance Proceeds	--	Debt Repayments	45,410,000
		Accrual Adjustments	(12,720,934)
Available Cash:		Projected Year-End Balances:	
Unrestricted Funds	881,951,099	Unappropriated Balance	837,515,970
Restricted Funds	64,010,351	Restricted Cash	64,426,707
Total Sources	\$1,499,160,339	Total Appropriations	\$1,499,160,339

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.

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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 Los Angeles City CEQA Guidelines;
2. Adopt the Fiscal Year 2020/21 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 2020/21 Proposed Annual Budget documents in the implementation of this budget; and
4. Adopt Resolution No. _____.

DISCUSSION:**Financial Performance Goals**

Projected financial performance for FY 2020/21 relative to the current year is summarized below:

TABLE 2: KEY BUDGET COMPONENTS

	FY 2019/20 Adopted Budget	FY 2019/20 Forecast	FY 2020/21 Proposed Budget	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Cargo Volumes (TEUs)	9.40M	8.24M	7.93M	(15.6%)	(3.7%)
Operating Revenues	\$499.7M	\$452.0M	\$460.1M	(7.9%)	1.8%
Operating Expenses	\$278.0M	\$275.9M	\$277.8M	(0.1%)	0.7%
Income before Depreciation	\$221.7M	\$176.1M	\$182.3M	(17.8%)	3.5%
Net Income	\$27.4M	(\$10.6M)	(\$4.8M)	(117.6%)	(54.6%)
Capital Improvement Program	\$144.4M	\$75.3M	\$163.6M	13.3%	117.3%

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.

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TABLE 3: KEY FINANCIAL METRICS

Key Financial Metric	Minimum	Proposed FY 2020/21
Debt Rating	AA	AA
Debt Service Coverage Ratio	2.0x	3.3x
Operating Margin	45.0%	39.6%

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 October 2019, and divisions submitted their proposed budgets in late November 2019. After holding internal discussions with senior management in January and February 2020, Harbor Department staff presented an initial look at the Proposed Budget to the Board in April 2020.

In late March 2020, the Proposed Budget was 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.

Due to the outbreak of the novel coronavirus throughout the globe this winter, projected revenues have had to be updated various times during later stages of the budget preparation process. Since the presentation to the Board in April, the proposed cargo volumes were reduced from 8.60 million twenty-foot equivalent units (TEUs) to 7.93 million TEUs, primarily driving the reduction in proposed Operating Revenues by \$21.1 million from \$481,165,938 to \$460,090,279.

In addition, subsequent adjustments and changes were made to the FY 2020/21 proposed Operating Expenses, with total overall reductions of \$6.9 million outlined below:

TABLE 4: SUMMARY OF CHANGES TO PROPOSED TOTAL OPERATING EXPENSES FOLLOWING APRIL 2020 BOARD MEETING

Proposed Total Operating Expenses, April 2020	\$ 284,742,400
Additions / (Reductions):	
Outside Services – Optimizer additions	\$682,078
Materials & Supplies	(179,520)
Marketing & Customer Relations	(309,547)
Travel – Foreign and Domestic	(521,108)
City Services	(574,598)
Salaries & Benefits Changes	(1,075,076)
Other Operating Expenses – Customer Incentives	(4,938,526)
Proposed Total Operating Expenses, June 2020	\$ 277,826,103

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Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2020 through June 30, 2021.

Sources of Funds for Proposed Budget

Sources of funds for the Proposed Budget are expected to decrease relative to the FY 2019/20 Adopted Budget (Adopted Budget), primarily due to lower Operating Receipts and Proceeds from Debt Issuance.

**TABLE 5: COMPARISON OF PROPOSED BUDGET SOURCES OF FUNDS
TO THE FY 2019/20 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2019/20	Forecast FY 2019/20	Proposed Budget FY 2020/21	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Receipts	\$ 499,717	\$ 452,010	\$ 460,090	(7.9%)	1.8%
Non-Operating Receipts	55,607	26,506	76,880	38.3%	190.0%
Grant Receipts (Capital)	9,712	5,322	16,228	67.1%	204.9%
Debt Issuance Proceeds	204,624	193,405	-		
Unrestricted Funds	752,761	830,703	881,951	17.2%	6.2%
Restricted Funds	86,500	88,508	64,010	(26.0%)	(27.7%)
Total Sources	\$ 1,608,922	\$ 1,596,454	\$ 1,499,160	(6.8%)	(6.1%)

Operating Receipts

Comprising 30.7% 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 2019/20 Estimate Forecast (Forecast).

**TABLE 6: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS
TO THE FY 2019/20 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2019/20	Forecast FY 2019/20	Proposed Budget FY 2020/21	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Shipping Services	\$ 408,973	\$ 354,871	\$ 367,781	(10.1%)	3.6%
Rentals	64,768	74,044	71,966	11.1%	(2.8%)
Royalties and Fees	3,850	3,447	3,459	(10.1%)	0.4%
Clean Truck Fees	3,500	3,257	2,075	(40.7%)	(36.3%)
Other Operating	18,626	16,390	14,809	(20.5%)	(9.6%)
Total Operating Receipts	\$ 499,717	\$ 452,010	\$ 460,090	(7.9%)	1.8%
Cargo Volumes (TEUs in Thousands)	9,400	8,237	7,934	(15.6%)	(3.7%)

During FY 2019/20, forecasted cargo volumes are projected to decline by 15.0% relative to the prior year FY 2018/19 Actuals and 12.4% relative to the Adopted Budget. Looking forward to FY 2020/21, cargo volumes are expected to decline by 15.6% relative to the Adopted Budget and 3.7% relative to the Forecast.

Operating Receipts will continue to be driven by cargo-related activities as Shipping Services Revenue is anticipated to comprise approximately 79.9% of the \$460.1 million

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in projected total Operating Receipts. The reduction in total Operating Receipts as compared to the Adopted Budget primarily results from lower anticipated revenue from Shipping Services, due to lower overall TEUs, Royalties & Fees, Clean Truck Fees, and other Operating Revenues, partially offset by increases to Rentals.

Non-Operating Receipts

Proposed Non-Operating Receipts of \$76.9 million include \$57.0 million in grants (the majority of which are pass-through grants), \$3.1 million in investment and interest income, and \$1.2 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 and Forecast primarily due to higher pass-through grant receipts.

Capital Grant Receipts

Anticipated to comprise \$16.2 million of the Proposed Budget, Capital Grant Receipts are expected to increase by \$6.5 million relative to the Adopted Budget. Major projects receiving capital grant funding in FY 2020/21 include the Alameda Corridor Southern Terminus Gap Closure, the Terminal Island Railyard Enhancement Project, the Port Police Radio System upgrade, the SR-47/Vincent Thomas Bridge/Front Street Connector Project, and the South Wilmington Grade Separation.

Available Cash-on-Hand

The Proposed Budget includes Restricted Funds and Unrestricted Funds, which comprise 4.3% and 58.8% 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 \$64.0 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 2020/21, the UB may be used, 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 \$882.0 million in unrestricted cash which, based upon proposed Operating Expenses of \$277.8 million, would be sufficient to meet one of the criteria necessary to maintain the Port's current "AA" debt rating.

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Proposed Budget Appropriations

Proposed Budget Appropriations are expected to decrease by 6.8% relative to the Adopted Budget, due primarily to a decrease in Operating Expenses and Debt Repayments.

TABLE 7: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS TO THE FY 2019/20 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2019/20	Forecast FY 2019/20	Proposed Budget FY 2020/21	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Expenses	\$ 278,047	\$ 275,943	\$ 277,826	(0.1%)	0.7%
Capital Budget	182,267	111,081	190,268	4.4%	71.3%
Non-Operating Expenses	82,402	45,734	96,434	17.0%	110.9%
Debt Repayments and Accruals	243,173	217,735	32,689	(86.6%)	(85.0%)
Unappropriated Balance (UB)	750,402	881,951	837,516	11.6%	(5.0%)
Restricted Cash	72,632	64,010	64,427	(11.3%)	0.7%
Total Appropriations	\$ 1,608,922	\$ 1,596,454	\$ 1,499,160	(6.8%)	(6.1%)

Operating Expenses

The FY 2020/21 Proposed Budget includes total Operating Expenses of \$277.8 million, which represent a 0.1% decrease relative to the Adopted Budget and a 0.7% 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 & Benefits and City Services. Decreasing Other Operating Expenses are primarily driving reductions in Operating Expenses as compared to the Adopted Budget (see Table 11 for more details regarding Other Operating Expenses).

TABLE 8: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES TO THE FY 2019/20 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2019/20*	Forecast FY 2019/20	Proposed Budget FY 2020/21	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Salaries & Benefits	\$ 147,911	\$ 147,659	\$ 153,593	3.8%	4.0%
Marketing & Public Relations	3,080	3,070	2,848	(7.6%)	(7.3%)
Travel	722	683	779	7.9%	14.0%
Outside Services	36,620	35,357	36,567	(0.1%)	3.4%
Materials & Supplies	7,667	7,697	7,100	(7.4%)	(7.8%)
City Services	55,375	55,002	57,387	3.6%	4.3%
Allocations to Capital	(16,296)	(16,296)	(18,296)	12.3%	12.3%
Other Operating Expenses	42,967	42,769	37,848	(11.9%)	(11.5%)
Total Operating Expenses	\$ 278,046	\$ 275,943	\$ 277,826	(0.1%)	0.7%

*The Adopted Budget includes \$3.6M in transfers across multiple budget categories, approved by the Board in FY 2019/20.

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Salaries & Benefits of \$153.6 million (net of \$13.5 million in capitalization) have been included within the Proposed Budget in order to support 999 authorized positions. Based upon historical information, 8.4% of Harbor Department positions are projected to be vacant at any given point in FY 2020/21. Therefore, although 999 positions are authorized within the Proposed Budget, the \$153.6 million Salaries and Benefits budget represents funding for an average of 915 filled positions which support 28 Department-wide divisions, with Construction & Maintenance and Port Police comprising the largest Salaries and Benefits budgets among the 28 divisions.

Note: The \$13.5 million in capitalized Salaries and Benefits is for staff time spent working directly on capital projects within the Harbor Department's Capital Improvement Program (CIP).

TABLE 9: PROPOSED SALARIES AND BENEFITS (BEFORE CAPITALIZATION, \$167.1 MILLION)

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2020/21	Proposed Salaries & Benefits as a % of Total
Port Police	228	\$ 37,614	22.5%
Construction and Maintenance	290	35,675	21.3%
Engineering	91	16,979	10.2%
Construction	69	13,691	8.2%
Port Pilots	33	12,766	7.6%
Finance	61	10,777	6.4%
Cargo Marketing, Planning, & Real Estate Divisions	61	9,509	5.7%
Information Technology	44	8,462	5.1%
Human Resources & Contracts and Purchasing	37	6,022	3.6%
Stakeholder Engagement Bureau	34	5,412	3.2%
Executive & Commission	20	4,836	2.9%
Environmental Management	28	4,607	2.8%
Goods Movement	3	778	0.5%
Total	999	\$ 167,128	100.0%

Relative to the Adopted Budget, Proposed Salaries and Benefits are projected to increase by \$5.7 million due to:

-  \$4.2 million in Memorandum of Understanding (MOU) mandated increases to salaries, salary step increases, and position upgrades;
-  \$1.3 million higher pension and health care contributions;
-  \$1.2 million in a reduced true-up/refund for retirement plan payments; and
-  \$0.6 million in higher bonuses and miscellaneous employee benefits pay; partially offset by:
 -  \$1.0 million in reduced Overtime;
 -  \$0.4 million in higher Salary and Benefits Attrition Savings; and
 -  \$0.2 million in higher direct Salaries and Benefits allocations to capital.

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Marketing & Public Relations expenses of \$2.8 million include Port-wide marketing activities such as customer and community outreach, and sponsorships. Proposed expenses in this category are decreasing by 7.6% relative to the Adopted Budget and 7.3% relative to the Forecast. Reductions in promotional expenses, publications & notices, and foreign trade representation are partially offset by a slight increase in advertising expenses.

Travel expenses of \$0.8 million are primarily allocated towards marketing efforts to retain and grow business, and promote employee development. Of the \$703,740 in proposed domestic and foreign travel expenses, \$160,500 or 22.8% is budgeted in the Cargo Marketing division and \$142,500 or 20.2% 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 14.0% increase relative to the Forecast as the COVID-19 emergency resulted in canceled travel throughout the last four months of the fiscal year.

Outside Services of \$36.6 million include an overall \$1.2 million increase relative to the Forecast as increases of \$2.3 million in maintenance dredging and \$1.7 million in information technology (IT) systems consulting services are partially offset by reductions of \$1.3 million for maintenance services for grounds & buildings, \$1.0 million for miscellaneous professional services, \$0.3 million for hiring hall expenses, and \$0.2 for environmental assessment services.

The largest components of proposed Outside Services are \$11.3 million or 31.0% for IT services (including information systems consulting, and maintenance for software & hardware), \$7.4 million or 20.1% for maintenance services (including dredging, wharves, buildings, equipment, open facilities & land, and grounds); and \$5.7 million or 15.6% for environmental assessment and remediation services, among others as illustrated in the table below. Approximately \$1.9 million in grant reimbursements are expected to be applied against \$2.6 million in Port security system maintenance service costs (which would result in \$0.7 million of net expense).

TABLE 10: PROPOSED OUTSIDE SERVICES

(\$ in Thousands)	Proposed Budget FY 2020/21	Proposed as a % of total
IT Systems Consulting and Hardware / Software Maintenance	\$ 11,320	31.0%
Maintenance - Dredging, Wharf, Building, Equipment, Open Facilities and Land, and Grounds	7,364	20.1%
Environmental Remediation & Site Restoration	5,699	15.6%
Cruise Terminal Operations	2,232	6.1%
Security Camera and other Security System Maintenance & Repair	2,600	7.1%
Hiring Hall Salaries and Benefits	1,792	4.9%
Outside Counsel	1,200	3.3%
Other	4,359	11.9%
Total Outside Services	\$ 36,567	100.0%

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Materials & Supplies spending of \$7.1 million represents a \$567,451 reduction compared to the Adopted Budget and a \$597,400 reduction compared to the Forecast. Reduced spending for parts & materials, administrative & operating supplies, tools & equipment, and landscape & gardening supplies drives the year-to-year reductions relative to both the Adopted Budget and Forecast.

City Services of \$57.4 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, \$12.1 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 3.6% higher compared to the Adopted Budget and 4.3% 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 by \$2.0M relative to both the Adopted Budget and Forecast as CIP spending will be increasing in the coming year. Higher Overhead Allocations actually reduce Operating Expenses as a higher portion of expenses are transferred to the Capital Budget.

Other Operating Expenses are summarized as follows:

TABLE 11: COMPARISON OF PROPOSED BUDGET OTHER OPERATING EXPENSES TO THE FY 2019/20 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2019/20	Forecast FY 2019/20	Proposed Budget FY 2020/21	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Utilities	\$ 19,037	\$ 19,249	\$ 19,723	3.6%	2.5%
Container & Cruise Incentives	8,200	7,861	2,300	(72.0%)	(70.7%)
Environmental Initiatives	4,855	4,709	4,473	(7.9%)	(5.0%)
Insurance	3,034	2,903	3,048	0.5%	5.0%
Litigation/Workers' Comp Claims	2,450	2,450	2,250	(8.2%)	(8.2%)
Telephone	1,778	1,538	1,845	3.7%	20.0%
Provision for Bad Debt	250	250	250	0.0%	0.0%
Other Operating Expenses	3,363	3,809	3,959	17.7%	3.9%
Total Other Operating Expenses	\$ 42,967	\$ 42,769	\$ 37,848	(11.9%)	(11.5%)

The \$19.7 million appropriation for Utilities represents 52.1% of total Other Operating Expenses within the Proposed Budget. Consisting primarily of \$17.2 million for electricity expenses, the overall proposed utility spending is budgeted to decrease slightly in the coming year. Proposed electricity expenses consist of \$13.2 million in Alternative Maritime Power (AMP™) related expenses, approximately 95% of which are reimbursed by customers.

The Proposed Budget also includes \$2.3 million for container, shipping, and cruise incentive programs to drive business to the Port. The Ocean Common Carrier (OCC) Incentive Program provides a financial incentive for OCCs whose TEU volumes exceed certain criteria set by the program, while the Ultra-Large Container Vessel Incentive

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Program provides a financial incentive for OCCs to bring their largest ships to call at the Port.

The \$4.5 million appropriation for environmental initiatives includes \$1.5 million in incentive payouts for the Vessel Speed Reduction Program, \$1.3 million for incentive payouts for the Technology Advancement Program, \$1.2 million for administrative costs for the Clean Truck Program, and \$0.5 million for incentive payouts related to the Environmental Shipping Index.

Capital Budget

The Proposed Capital Budget of \$190.3 million is projected to be 4.4% higher relative to the Adopted Budget and 71.3% higher relative to the Forecast. Relative to both the Adopted Budget and Forecast, CIP Spending within the Proposed Budget has increased for Public Access/Environmental Enhancement projects as waterfront development continues at the Port:

**TABLE 12: COMPARISON OF PROPOSED CAPITAL BUDGET
TO THE FY 2019/20 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2019/20	Forecast FY 2019/20	Proposed Budget FY 2020/21	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Capital Improvement Program:					
Terminal Improvements	\$ 64,734	\$ 23,554	\$ 60,947	(5.9%)	158.8%
Transportation Projects	11,685	10,431	7,290	(37.6%)	(30.1%)
Security Projects	8,510	4,471	7,797	(8.4%)	74.4%
Public Access / Env. Enhancements	21,455	10,310	54,277	153.0%	426.5%
Maritime Services	38,047	26,581	33,325	(12.4%)	25.4%
Capital Improvement Program, Total	144,431	75,346	163,636	13.3%	117.2%
Capitalized Expenditures					
Capitalized Expenditures	16,296	16,296	18,296	12.3%	12.3%
Land & Property Acquisition	9,148	9,148	-		
Equipment Purchases	12,391	10,291	8,336	(32.7%)	(19.0%)
Total Capital Budget	\$ 182,266	\$ 111,080	\$ 190,268	4.4%	71.3%

Capital Improvement Program (CIP) - The \$163.6 million Proposed CIP Budget is 13.3% higher relative to the Adopted Budget and 117.2% higher relative to the Forecast.

In FY 2020/21, \$60.9 million or 37.2% of the Proposed CIP is budgeted for Terminal Improvement projects with funding for these projects decreasing by 5.9% or \$3.8 million as compared to the Adopted Budget. Proposed funds for Terminal Improvements include \$38.1 million for wharf and backland improvements at the EverPort Container Terminal; \$8.8 million for repairs and upgrades at five liquid bulk facilities for compliance with Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS); \$4.8 million for wharf restoration and enhancements at the Pasha Terminal; \$4.7 million for corridor storage track expansion at the APM Terminal; and \$4.5 million for other terminal improvements throughout the Port.

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The budget for Public Access/Environmental Enhancement projects is \$54.3 million or 33.2% of the FY 2020/21 Proposed CIP Budget, which includes \$42.3 million for the construction of the San Pedro Public Market Promenade & Town Square and other improvements along the San Pedro waterfront. An additional \$9.7 million is allocated for continued development of the Wilmington Waterfront including \$8.8 million for the construction of the Wilmington Waterfront Promenade, and \$0.9 million for the design of the Wilmington Youth Sailing & Aquatic Center and other improvements. A proposed budget of \$2.3 million is allocated for environmental enhancement projects including the construction of wireless zero-emission charging infrastructure and design of a new AMP system for the Outer Harbor Cruise Terminal.

Transportation projects (roadway and rail improvements) are budgeted at \$7.3 million or 4.5% of the Proposed CIP Budget and include \$4.2 million for the Alameda Corridor Southern Terminus Gap Closure; \$0.9 million to reconfigure the on and off ramps at State Route 47/Vincent Thomas Bridge and Front Street/Harbor Boulevard for improved traffic flow; and \$2.2 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 \$41.1 million for Security and Maritime Services projects. To improve security at the Port, the FY 2020/21 CIP Budget includes \$7.8 million for the replacement and upgrade of the Port Police Radio and Computer Aided Dispatch/Records Management systems, the installation of a Fixed License Plate Reader System, and the closeout of several smaller security projects. The Maritime Services budget of \$33.3 million includes \$12.6 million in repairs and improvements at Harbor Department Facilities, \$12.0 million in unallocated funding for unanticipated projects, \$1.9 million to replace two pilot boats, and \$6.8 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 2020/21 CIP Budget, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2020/21 and provides estimated allocations for the subsequent four years along with total project costs. Over the five-year period extending from FY 2020/21 to FY 2024/25, the Harbor Department expects to spend approximately \$645.0 million on capital projects throughout the Port. 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 prepares its budget on an annual basis in conformance with the City Charter, only the FY 2020/21 portion of this plan is being brought before the Board for adoption.

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Capitalized Expenditures include indirect overhead allocations that support the entire, global CIP.

Equipment Purchases of \$8.3 million within the Proposed Budget for equipment such as vehicles, vessels, and IT hardware are expected to decrease by 32.7% relative to the Adopted Budget and by 19.0% compared to the Forecast.

Non-Operating Expenses

Budgeted at \$96.4 million, proposed Non-Operating Expenses are expected to be driven by \$55.2 million in state grant pass-through expenses; \$33.7 million in interest expenses, which can no longer be capitalized due to a change in accounting standards; \$7.0 million in costs for cancelled capital projects; \$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.

Debt Service

At \$79.1 million, Debt Service is decreasing by 6.2% in FY 2020/21 relative to the Forecast. The Port currently has \$711.1 million in outstanding senior lien fixed rate debt which is AA rated.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the FY 2020/21 Annual Budget, which is an administrative activity. This action does not constitute approval of specific projects. 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 Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of the FY 2020/21 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department's operations and development in the next fiscal year. The \$1,499,160,339 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 2020/21 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 2020/21 Proposed Annual Budget
- 2. Five-Year Capital Expenditure Plan

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



JEFFREY STRAFFORD
 Director of Financial Planning & Analysis



MARLA BLEAVINS
 Deputy Executive Director &
 Chief Financial Officer

APPROVED:



EUGENE D. SEROKA
 Executive Director

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