



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

Board of Harbor Commissioners

**DATE: MAY 26, 2022**

**FROM: FINANCIAL PLANNING & ANALYSIS**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - ADOPTION OF PROPOSED FISCAL YEAR 2022/23 ANNUAL BUDGET**

**SUMMARY:**

Staff requests approval of the Fiscal Year (FY) 2022/23 Proposed Annual Budget (Proposed Budget) of \$1,886,989,538. 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**

<b>Sources:</b>		<b>Appropriations:</b>	
Operating Receipts	\$ 628,101,943	Operating Expenses	\$ 334,039,691
Non-Operating Receipts	54,483,422	Non-Operating Expenses	107,031,411
Grant Receipts (Capital)	30,871,093	Capital Budget	211,826,758
Debt Issuance Proceeds	-	Debt Repayments	40,210,000
		Accrual Adjustments	52,485,912
Available Cash:		Projected Year-End Balances:	
Unrestricted Funds	1,101,121,513	Unappropriated Balance	1,036,359,199
Restricted Funds	72,411,567	Restricted Cash	105,036,567
<b>Total Sources</b>	<b>\$1,886,989,538</b>	<b>Total Appropriations</b>	<b>\$1,886,989,538</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. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California

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Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;

2. Adopt the Fiscal Year 2022/23 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 2022/23 Proposed Annual Budget documents in the implementation of this budget;
4. Approve the transfer of \$20,682,370 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 2022/23 relative to the current year is summarized below:

**TABLE 2: KEY BUDGET COMPONENTS**

	Adopted Budget FY 2021/22	Forecast FY 2021/22	Proposed Budget FY 2022/23	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Cargo Volumes (TEUs)	9.70M	10.22M	9.85M	1.5%	(3.7%)
Operating Revenues	\$533.3M	\$621.4M	\$628.1M	17.8%	1.1%
Operating Expenses	\$312.9M	\$307.3M	\$334.0M	6.8%	8.7%
Income before Depreciation	\$220.4M	\$314.1M	\$294.1M	33.4%	(6.4%)
Net Income	\$26.9M	\$119.5M	\$81.3M	201.6%	(32.0%)
Capital Improvement Program	\$188.7M	\$117.1M	\$180.5M	(4.3%)	54.2%

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.

**TABLE 3: KEY FINANCIAL METRICS**

Key Financial Metric	Minimum	Proposed FY 2022/23
Debt Rating	AA	AA
Debt Service Coverage Ratio	2.0x	5.2x
Operating Margin	45.0%	46.8%

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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 2021, and divisions submitted their proposed budgets in late November 2021. After holding internal discussions with senior management in February 2022, Harbor Department staff presented an initial look at the Proposed Budget to the Board in April 2022.

In late March 2022, 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.

Following the April 2022 presentation of the Proposed Budget to the Board, FY 2022/23 Proposed Operating Revenues decreased by \$4.3 million. This reduction occurred as a result of a reduction in container wharfage due to a rent credit expected as part of the reconciliation of the reset process with major a tenant, which was partially offset by increases to wharfage for the cruise and oil business, and increases to the assumptions for consumer price index (CPI) escalation of land rentals.

In addition, subsequent adjustments and changes were made to the FY 2022/23 proposed Operating Expenses, with a total overall increase of \$7.1 million outlined below:

**TABLE 4: SUMMARY OF CHANGES TO PROPOSED TOTAL OPERATING EXPENSES FOLLOWING APRIL 2022 BOARD MEETING**

<b>Proposed Total Operating Expenses, April 2022</b>	<b>\$ 326,957,886</b>
Additions / (Reductions):	
Zero Emission (ZE) 25 Pilot Program	\$6,000,000
Salaries & Benefits Changes (Including Salary Reopener)	1,385,500
Port Police Air Conditioner Maintenance – KBUE Radio Site	(3,695)
Zero Emission (ZE) Yard Tractor Lease for YTI	(300,000)
<b>Proposed Total Operating Expenses, June 2022</b>	<b>\$ 334,039,691</b>

Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2022 through June 30, 2023.

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**Sources of Funds for Proposed Budget**

Sources of funds for the Proposed Budget are expected to increase relative to the FY 2021/22 Adopted Budget (Adopted Budget), primarily due to higher Operating Receipts, Grants Receipts, Unrestricted Funds, and Restricted Funds.

**TABLE 5: COMPARISON OF PROPOSED BUDGET SOURCES OF FUNDS TO THE FY 2021/22 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2021/22	Forecast FY 2021/22	Proposed Budget FY 2022/23	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Receipts	\$ 533,270	\$ 621,432	\$ 628,102	17.8%	1.1%
Non-Operating Receipts	72,725	45,756	54,483	(25.1%)	19.1%
Grant Receipts (Capital)	26,214	16,117	30,871	17.8%	91.5%
Debt Issuance Proceeds	37,717	-	-	n/m	n/m
Unrestricted Funds	973,424	1,012,012	1,101,122	13.1%	8.8%
Restricted Funds	66,821	65,622	72,412	8.4%	10.3%
<b>Total Sources</b>	<b>\$ 1,710,172</b>	<b>\$ 1,760,938</b>	<b>\$ 1,886,990</b>	<b>10.3%</b>	<b>7.2%</b>

**Operating Receipts**

Comprising 33.3% of the 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 the proposed Operating Receipts, as well as a comparison to the Adopted Budget and FY 2021/22 Forecast (Forecast).

**TABLE 6: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS TO THE FY 2021/22 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2021/22	Forecast FY 2021/22	Proposed Budget FY 2022/23	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Shipping Services	\$ 428,982	\$ 487,494	\$ 439,655	2.5%	(9.8%)
Rentals	84,646	87,889	93,944	11.0%	6.9%
Royalties and Fees	1,825	4,084	4,589	151.4%	12.4%
Clean Truck Fees	1,950	5,799	47,699	2,346.1%	722.5%
Other Operating	15,868	36,167	42,214	166.0%	16.7%
<b>Total Operating Receipts</b>	<b>\$ 533,271</b>	<b>\$ 621,432</b>	<b>\$ 628,102</b>	<b>17.8%</b>	<b>1.1%</b>
<b>Cargo Volumes (TEUs in Thousands)</b>	<b>9,700</b>	<b>10,225</b>	<b>9,850</b>	<b>1.5%</b>	<b>(3.7%)</b>

During FY 2021/22 cargo volumes are projected to decrease by 6.0% relative to the prior year FY 2020/21 Actuals and increase by 5.4% relative to the Adopted Budget. Looking forward to FY 2022/23, cargo volumes are expected to increase by 1.5% relative to the Adopted Budget, but decline by 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 70.0% of the \$628.1 million in projected total Operating Receipts. The increase in total Operating Receipts as compared to the Adopted Budget results from higher anticipated revenue from Shipping

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Services due to a slight increase in overall TEUs, as well as increases in all other revenue categories including Rentals, Royalties, & Fees, Clean Truck Program Fees, and Other Operating Revenues. In April 2022, a new Clean Truck Fee was implemented that is expected to generate approximately \$45.0 million in revenue for the Proposed Budget.

**Non-Operating Receipts**

Proposed Non-Operating Receipts of \$54.5 million include \$34.6 million in grants (the majority of which are pass-through grants), \$18.0 million in investment and interest income, and \$1.9 million in fees and other non-operating revenues. The California Air Resources Board and California Energy Commission are providing the majority of the pass-through grant funding for various demonstration projects aimed towards the reduction of air emissions. Proposed Non-Operating Receipts are anticipated to increase relative to the Forecast primarily due to higher pass-through grant receipts; however, relative to the Adopted Budget, proposed pass-through grant receipts are \$18.5 million lower.

**Capital Grant Receipts**

Anticipated to comprise \$30.9 million of the Proposed Budget, Capital Grant Receipts are expected to increase by \$4.7 million relative to the Adopted Budget. Major projects receiving capital grant funding in FY 2022/23 include the Terminal Island Railyard Enhancement Project, the Alameda Corridor Southern Terminus Gap Closure, and the State Route 47/Vincent Thomas Bridge & Front St./Harbor Blvd. Interchange Reconfiguration Project.

**Available Cash-on-Hand**

The Proposed Budget includes Restricted Funds and Unrestricted Funds, which comprise 3.8% and 58.4% 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, or agreements. The Proposed Budget includes Restricted Funds totaling \$72.4 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 2022/23, 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 \$1.1 billion in unrestricted cash which, based upon proposed Operating Expenses of \$334.0 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 increase by 10.3% relative to the Adopted Budget, due primarily to an increase in Operating Expenses, Restricted Cash, and the Unappropriated Balance.

**TABLE 7: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS  
TO THE FY 2021/22 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2021/22	Forecast FY 2021/22	Proposed Budget FY 2022/23	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Expenses	\$ 312,887	\$ 307,265	\$ 334,040	6.8%	8.7%
Capital Budget	214,350	142,173	211,827	(1.2%)	49.0%
Non-Operating Expenses	104,620	77,084	107,031	2.3%	38.9%
Debt Repayments and Accruals	52,139	60,883	92,696	77.8%	52.3%
Unappropriated Balance (UB)	959,597	1,101,122	1,036,359	8.0%	(5.9%)
Restricted Cash	66,579	72,412	105,037	57.8%	45.1%
<b>Total Appropriations</b>	<b>\$ 1,710,172</b>	<b>\$ 1,760,938</b>	<b>\$ 1,886,990</b>	<b>10.3%</b>	<b>7.2%</b>

**Operating Expenses**

The FY 2022/23 Proposed Budget includes total Operating Expenses of \$334.0 million, which represents an increase of 6.8% relative to the Adopted Budget and 8.7% relative to the Forecast. The increases in total Operating Expenses relative to the Adopted Budget and the Forecast are expected to be driven mostly by increases in Other Operating Expenses, Outside Services, and City Services (see Table 11 for more details regarding Other Operating Expenses).

**TABLE 8: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES  
TO THE FY 2021/22 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2021/22*	Forecast FY 2021/22	Proposed Budget FY 2022/23	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Salaries & Benefits	\$ 161,451	\$ 160,782	\$ 162,614	0.7%	1.1%
Marketing & Public Relations	2,858	2,807	3,336	16.7%	18.8%
Travel	640	456	1,106	72.9%	142.5%
Outside Services	36,486	36,242	44,140	21.0%	21.8%
Materials & Supplies	7,274	6,684	6,343	(12.8%)	(5.1%)
City Services	58,618	56,546	62,194	6.1%	10.0%
Allocations to Capital	(19,491)	(19,491)	(19,476)	(0.1%)	(0.1%)
Other Operating Expenses	65,051	63,239	73,784	13.4%	16.7%
<b>Total Operating Expenses</b>	<b>\$ 312,887</b>	<b>\$ 307,265</b>	<b>\$ 334,040</b>	<b>6.8%</b>	<b>8.7%</b>

\*The Adopted Budget includes a \$6.2 million transfer to Operating Expenses from the Unappropriated Balance, a \$6.7 million transfer to Operating Expenses from Non-Operating Expenses, and a \$3.4 million transfer across Operating Expense categories, which were approved by the Board in FY 2021/22 and increased the initially adopted budget in July 2022 from \$300.1 million to \$312.9 million.

**Salaries & Benefits** of \$162.6 million (net of \$16.8 million in capitalization) have been included within the Proposed Budget in order to support 999 authorized positions. With the Harbor Department's historical vacancy rate at 8.5% and the department's intent to hold 40 of the 80 Separation Incentive Program (SIP) positions vacant, the FY 2022/23 Proposed Budget for Salaries and Benefits includes funding for an average of 875 positions. Through holding 40 SIP positions vacant, the Harbor Department projects a

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savings of \$6.5 million for FY 2022/23. The \$162.6 million Salaries and Benefits budget supports 28 divisions with Port Police and Construction & Maintenance comprising the largest Salaries and Benefits budgets among the 28 divisions.









Note: The \$16.8 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, \$179.4 MILLION)

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2022/23	Proposed Salaries & Benefits as a % of Total
Port Police	226	\$ 41,443	26.1%
Construction and Maintenance	292	37,575	23.7%
Port Pilots	33	12,970	8.2%
Engineering	90	11,143	7.0%
Cargo Marketing, Planning, & Real Estate Divisions	61	10,078	6.3%
Finance	59	8,498	5.4%
Information Technology	45	7,963	5.0%
Construction	69	6,371	4.0%
Stakeholder Engagement Bureau	35	6,359	4.0%
Human Resources & Contracts and Purchasing	37	6,174	3.9%
Environmental Management	28	4,863	3.1%
Executive & Commission	20	4,358	2.7%
Goods Movement	4	1,032	0.6%
<b>Total</b>	<b>999</b>	<b>\$ 158,827</b>	<b>100.0%</b>

\*The total Proposed Budget for FY 2022/23 of \$158,827 in this table does not match the net Salaries & Benefits budget of \$162.6 million because the following expenses are excluded from the table: training for City Attorney and global Salaries & Benefits costs within the Special Projects division.

Relative to the Adopted Budget, Proposed Salaries and Benefits are projected to increase by \$1.2 million due to:

-  \$4.5 million in Memorandum of Understanding (MOU) mandated increases to salaries, salary step increases, and position upgrades;
-  \$3.3 million in higher pension and health care contributions;
-  \$1.7 million in higher bonuses and miscellaneous employee benefits pay; and
-  \$0.5 million in a reduced true-up/refund for retirement plan payments; partially offset by:
  -  \$5.3 million reduction for one time SIP payout made in FY 2021/22;
  -  \$1.4 million in reduced Overtime;
  -  \$1.2 million in higher Salary & Benefits attrition savings; and
  -  \$0.9 million in higher direct Salaries & Benefits allocations to capital.

**Marketing & 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 increasing by 16.7% relative to the Adopted Budget and

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18.8% relative to the Forecast. These increases are primarily driven by a \$500,000 increase to the Community Grant Sponsorship program in FY 2022/23.

**Travel** expenses of \$1.1 million are primarily allocated towards marketing efforts to retain and grow business, and promote employee development. Of the \$1.1 million in proposed domestic, foreign, and local travel expenses, \$353,500 or 32.0% is budgeted within the Executive Office and \$237,500 or 21.5% is within the Cargo Marketing division 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 142.5% increase relative to the Forecast as travel is expected to increase with reduced COVID-19 restrictions in FY 2022/23.

**Outside Services** of \$44.1 million include an overall \$7.9 million increase relative to the Forecast as increases in maintenance for dredging, wharves, land, equipment, and grounds; miscellaneous professional services; environmental assessment services; port security services; legal services; and computer hardware and software; are partially offset by decreases to hiring hall and maintenance for buildings, streets, bridges and rail.

The largest components of proposed Outside Services are \$11.5 million or 26.1% for maintenance services (including buildings; wharves; equipment; dredging; grounds; open facilities & land; and streets, bridges & railroads); \$10.9 million or 24.6% for IT services (including information systems consulting, and maintenance for software & hardware); \$6.1 million or 13.8% for environmental assessment and services; and \$3.3 million or 7.5% for cruise terminal operations, among others as illustrated in the table below. Approximately \$2.3 million in grant reimbursements are expected to be applied against \$3.1 million in Port security system maintenance service costs.

TABLE 10: PROPOSED OUTSIDE SERVICES

(\$ in Thousands)	Proposed Budget FY 2022/23	Proposed as a % of Total
Maintenance – Building; Wharves; Equipment; Dredging; Grounds; Open Facilities and Land; and Streets, Bridges & Railroads	\$ 11,520	26.1%
IT Systems Consulting and Hardware/Software Maintenance	10,880	24.6%
Environmental Assessment Services & Site Restoration	6,099	13.8%
Cruise Terminal Operations	3,302	7.5%
Security Camera and other Security System Maintenance & Repair	3,100	7.0%
Outside Counsel	2,684	6.1%
Hiring Hall Salaries and Benefits	1,197	2.7%
Other	5,358	12.2%
<b>Total Outside Services</b>	<b>\$ 44,140</b>	<b>100.0%</b>

**Materials & Supplies** spending of \$6.3 million represents a \$930,528 reduction compared to the Adopted Budget and a \$340,901 reduction compared to the Forecast. Reduced spending for equipment fuels, and tools and equipment, which is partially offset by increases to operating materials and supplies, general office supplies, and office equipment, drives the year-to-year reduction relative to the Forecast.

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**City Services** of \$62.2 million are for services rendered by other City departments for Port operations. The primary drivers of this budget category include \$38.8 million for Fire Department services, \$12.0 million for recreational facilities operated by the Department of Recreation and Parks (i.e. Cabrillo Marine Aquarium, parks, museums), and \$6.6 million for City Attorney services. Proposed expenses are 6.1% higher as compared to the Adopted Budget and 10.0% as compared to the Forecast due to mandated MOU increases for Salaries and Benefits and the addition of a managerial position for the Fire Department.

**Overhead Allocations to Capital** of \$19.5 million are indirect expenses that support the global Capital Improvement Program (CIP). Overhead allocations to capital are flat relative to both the Adopted Budget and Forecast. Higher Overhead Allocations 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 2021/22 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2021/22	Forecast FY 2021/22	Proposed Budget FY 2022/23	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Utilities	\$ 32,077	\$ 40,335	\$ 27,923	(13.0%)	(30.8%)
Environmental Initiatives	6,009	5,992	18,963	215.6%	216.5%
Customer Incentives	13,305	4,526	13,872	4.3%	206.5%
Insurance	4,010	3,832	4,686	16.9%	22.3%
Litigation/Workers' Comp Claims	2,750	2,250	2,250	(18.2%)	-
Telephone	1,807	1,806	1,816	0.5%	0.6%
Taxes & Assessments	1,699	1,390	1,095	(35.5%)	(21.2%)
Other Operating Expenses	3,393	3,109	3,178	(6.3%)	2.2%
<b>Total Other Operating Expenses</b>	<b>\$ 65,051</b>	<b>\$ 63,239</b>	<b>\$ 73,784</b>	<b>13.4%</b>	<b>16.7%</b>

The \$27.9 million appropriation for Utilities represents 37.8% of total Other Operating Expenses within the Proposed Budget. Consisting primarily of \$25.6 million for electricity expenses, the overall proposed utility spending is budgeted to decrease by 30.8% in the coming year, compared to this year's Forecast. Proposed electricity expenses consisting of \$19.5 million in Alternative Maritime Power (AMP™) related expenses, nearly all of which are reimbursed by customers, are expected to decline in FY 2022/23, relative to the Forecast, due to lower forecasted cargo volumes and reduced cargo congestion.

The Proposed Budget also includes \$13.9 million for container, shipping, and cruise incentive programs to drive business to the Port and to improve efficiency. The Port has budgeted \$6.0 million for the Ocean Common Carrier (OCC), \$2.7 million for the Dual Transaction, and \$2.2 million for the Truck Turn-Time Incentive Programs, and \$0.6 million for the Ultra-Large Container Vessel Incentive Program. The 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 Program provides a financial incentive for OCCs to bring their largest ships to call at the Port. The

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Truck Turn-Time Incentive Program incentivizes container terminal operators to decrease the total time a truck spends at a terminal, while the Dual Transaction Incentive Program incentivizes container terminal operators to increase the number of dual transactions at their terminals. The FY 2022/23 Proposed Budget also includes \$2.4 million for the Cruise Incentive Program to encourage a greater number of cruise ship calls to the Port.

The \$19.0 million appropriation for environmental initiatives includes \$12.5 million for the purchase of zero emission trucks, which is funded by the new clean truck fee, \$2.1 million in incentive payouts for the Vessel Speed Reduction Program, \$1.2 million for incentive payouts for the Technology Advancement Program, \$2.7 million for administration of the Clean Truck Program and collection of the new clean truck fee, and \$0.5 million for incentive payouts related to the Environmental Shipping Index.

Capital Budget

The Proposed Capital Budget of \$211.8 million is projected to be 1.2% lower relative to the Adopted Budget and 49.0% higher relative to the Forecast.

TABLE 12: COMPARISON OF PROPOSED CAPITAL BUDGET  
TO THE FY 2021/22 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2021/22	Forecast FY 2021/22	Proposed Budget FY 2022/23	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Capital Improvement Program:					
Terminal Improvements	\$ 64,695	\$ 33,775	\$ 69,690	7.7%	106.3%
Transportation Projects	16,260	15,944	11,542	(29.0%)	(27.6%)
Security Projects	6,149	7,491	4,231	(31.2%)	(43.5%)
Public Access / Env. Enhancements	64,068	43,727	48,895	(23.7%)	11.8%
Maritime Services	37,521	16,178	46,188	23.1%	185.5%
<b>Capital Improvement Program, Total</b>	<b>188,693</b>	<b>117,115</b>	<b>180,546</b>	<b>(4.3%)</b>	<b>54.2%</b>
Capitalized Expenditures					
Land & Property Acquisition	19,491	19,491	19,476	(0.1%)	(0.1%)
Equipment Purchases	-	-	-	-	-
	6,166	5,566	11,805	91.5%	112.1%
<b>Total Capital Budget</b>	<b>\$ 214,350</b>	<b>\$ 142,173</b>	<b>\$ 211,827</b>	<b>(1.2%)</b>	<b>49.0%</b>

**Capital Improvement Program (CIP)** - The \$180.5 million Proposed CIP Budget is 4.3% lower relative to the Adopted Budget and 54.2% higher relative to the Forecast.

In FY 2022/23, \$69.7 million, or 38.6% of the Proposed CIP, is budgeted for Terminal Improvement projects with funding for these projects increasing by 7.7% or \$5.0 million as compared to the Adopted Budget. Proposed funds for Terminal Improvements include \$34.3 million for corridor storage track expansion at the APM Terminal; \$17.5 million for repairs and upgrades at two liquid bulk facilities for compliance with Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS); \$11.4 million for wharf restoration and enhancements at the Pasha Terminal; and \$6.5 million for other terminal improvements throughout the Port.

The budget for Public Access/Environmental Enhancement projects is \$48.9 million or 27.1% of the FY 2022/23 Proposed CIP Budget, which includes \$27.9 million for the

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continued development of the Wilmington Waterfront, \$25.3 million of which is for the construction of the Wilmington Waterfront Promenade, and \$2.6 million for construction of the Wilmington Youth Sailing and Aquatic Center, and other improvements. An additional \$10.5 million is budgeted for the construction of the San Pedro Public Market Promenade & Town Square and other improvements along the San Pedro waterfront. A proposed budget of \$6.8 million is allocated for environmental enhancement projects including the advanced electrical infrastructure demonstration and retrofitting earth switchgears. Additionally, \$3.7 million has been budgeted for the Front Street Beautification project for the construction of a multi-use path adjacent to the China Shipping Terminal.

Included in the FY 2022/23 Proposed CIP Budget is \$46.2 million for Maritime Services for repairs and improvements to Harbor Department facilities and other Port locations, which amounts to 25.6% of the proposed CIP budget. A total of \$12.9 million has been allocated for projects for Harbor Department facilities, \$8.9 million has been funded for various software upgrades including the Enterprise Resource Planning (ERP) system, which allows for the management of the department's accounting, purchasing, and other finance activities. Additionally, \$12.4 million has been budgeted for other miscellaneous Maritime Service projects such as wharf maintenance and repair, an environmental impact report for a 20-acre Goods Movement Workforce Training Facility, and continued work on multiple C&M deferred projects and sidewalk repair. An additional \$12.0 million has been set aside for unanticipated projects.

Transportation projects (roadway and rail improvements) are budgeted at \$11.5 million or 6.4% of the Proposed CIP Budget and include \$6.8 million to reconfigure the on and off ramps at State Route 47/Vincent Thomas Bridge and Front Street/Harbor Boulevard for improved traffic flow; \$2.2 million for the Alameda Corridor Southern Terminus Gap Closure; \$1.3 million for a rail crossing replacement at the West Basin Container Terminal entrance at Berth 115; and \$1.2 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 \$4.2 million, or 2.3% of the proposed budget for Security projects at the Port. These projects include \$2.9 million for the Port Cyber Resilience Center, \$0.5 million for perimeter security enhancements at the Port Police Headquarters, \$0.5 million to implement an upgraded radio system for Port Police, and \$0.3 million for other security projects.

In conjunction with the Proposed FY 2022/23 CIP Budget, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2022/23 and provides estimated allocations for the subsequent four years along with total project costs. Over the five-year period extending from FY 2022/23 to FY 2026/27, the Harbor Department expects to spend approximately \$637.6 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

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Charter, only the FY 2022/23 portion of this plan is being brought before the Board for adoption.

**Capitalized Expenditures** of \$19.5 million include indirect overhead allocations that support the entire, global CIP.

**Capital Equipment Purchases** of \$11.8 million within the Proposed Budget for equipment such as vehicles, vessels, and IT hardware are expected to increase 91.5% relative to the Adopted Budget and by 112.1% compared to the Forecast.

**Non-Operating Expenses**

Budgeted at \$107.0 million, proposed Non-Operating Expenses are expected to be driven by \$38.8 million in costs for cancelled capital projects; \$31.5 million in state grant pass-through expenses; \$27.1 million in interest expenses, which can no longer be capitalized due to a change in accounting standards; \$9.0 million as a placeholder for an Alameda Corridor Transportation Authority (ACTA) shortfall advance and associated payments (ACTA is currently attempting to do some refinancing to avoid the necessity of the shortfall advance); \$500,000 in bond and commercial paper issuance costs; and \$110,000 in other non-operating expenses. Proposed Non-Operating Expenses are expected to be higher relative to the Forecast due primarily to increased expenses for state pass-through grants and cancelled capital projects.

**Debt Service**

At \$67.4 million, Debt Service is decreasing by 43.4% in FY 2022/23 relative to the FY 2021/22 Forecast of \$119.0, which includes a standard debt service payment of \$77.8 million and a bond redemption of \$41.2 million. The Port currently has \$577.3 million in outstanding senior lien fixed rate debt which is AA rated.

**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.

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Given that Proposed Total Operating Expenses are anticipated to increase by 8.7% relative to the Forecast, staff is recommending that \$20,682,370 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 \$20,682,370 transfer has been calculated as follows:

FY 2018 Operating Expenses – Audited	\$ 236,953,163
FY 2019 Operating Expenses – Audited	240,426,486
FY 2020 Operating Expenses – Audited	273,570,529
FY 2021 Operating Expenses – Audited	273,968,091
FY 2022 Operating Expenses – Adopted	312,886,900
<b>Equals: Five Years of Operating Expenses</b>	<b>\$ 1,337,805,169</b>
<b>Five Year Average Operating Expenses</b>	<b>\$ 267,561,034</b>
Less: Special Operating Fund Balance – Current	(196,236,824)
Less: Emergency/ACTA Fund Balance – Current	(50,641,840)
<b>Equals: Required Transfer</b>	<b>\$ 20,682,370</b>

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is the approval of the FY 2022/23 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 Los Angeles City CEQA Guidelines.

**FINANCIAL IMPACT:**

Approval of the FY 2022/23 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department's operations and development in the next fiscal year. The \$1,886,989,538 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.

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**CITY ATTORNEY:**

The Office of the City Attorney has reviewed this Board report and has no legal issues at this time.

**TRANSMITTALS:**

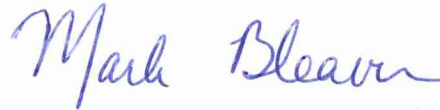
- 1. Fiscal Year 2022/23 Proposed Annual Budget
- 2. Five-Year Capital Expenditure Plan

FIS Approval: MB (initials)

CA Approval: gml (initials)



JEFFREY STRAFFORD  
Director of Financial Planning & Analysis



MARLA BLEAVINS  
Deputy Executive Director &  
Chief Financial Officer

APPROVED:

 FOR

EUGENE D. SEROKA  
Executive Director

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MB:JS:FK:JL: MM:CL: JY:MU