



**THE PORT
OF LOS ANGELES**

Executive Director's
Report to the
Board of Harbor Commissioners

DATE: APRIL 28, 2020

FROM: FINANCIAL PLANNING AND ANALYSIS

**SUBJECT: RESOLUTION NO. _____ - REQUEST FOR BUDGETARY
TRANSFER**

SUMMARY:

Staff requests total budgetary transfers of \$3,582,000 from the Adopted Operating Expense Budget's Marketing and Public Relations, Travel, Outside Services, and Materials and Supplies categories to the Adopted Operating Expense Budget's Salaries and Benefits, and Other Operating Expenses categories. This transfer is required to cover anticipated shortfalls within the Salaries and Benefits category for Regular Salaries, Employee Benefits Expenses, and Overtime; as well as the Other Operating Expenses category for Electricity and Environmental Incentives. As surpluses are expected to be available within the Adopted Operating Expense Budget's Marketing and Public Relations, Travel Expenses, Outside Services, and Materials and Supplies categories, the overall Fiscal Year (FY) 2019/20 Adopted Budget will remain unchanged at \$278,046,454. Payment of Salaries, Benefits, Overtime, Electricity, and Environmental Incentive expenses are the financial responsibility of the City of Los Angeles Harbor Department (Harbor Department).

RECOMMENDATION:

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

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;
2. Approve the following budgetary transfers to resolve a projected shortfall in the respective operating expense accounts:
 - a. Transfer \$1,060,126 from the Adopted Operating Expense Budget, Account 54260, Center 0330, Program 000 as follows:
 1. \$582,000 to Account 59965, Center 0330, Program 000;
 2. \$378,126 to Account 51610, Center 0900, Program 000;
 3. \$100,000 to Account 51010, Center 0900, Program 000;
 - b. Transfer \$800,000 from the Adopted Operating Expense Budget, Account 54290, Center 0429, Program 000 to Account 59510, Center 0900, Program 000;

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- c. Transfer \$750,000 from the Adopted Operating Expense Budget, Account 54060, Center 0311, Program 000 to Account 51110, Center 0412, Program 000;
 - d. Transfer \$192,348 from the Adopted Operating Expense Budget, Account 53000, Center 0900, Program 000 to Account 51010, Center 0900, Program 000;
 - e. Transfer \$187,744 from the Adopted Operating Expense Budget, Account 53100, Center 0900, Program 000 to Account 51010, Center 0900, Program 000;
 - f. Transfer \$157,082 from the Adopted Operating Expense Budget, Account 54410, Center 0120, Program 000 as follows:
 - 1. \$82,871 to Account 51110, Center 0412, Program 000;
 - 2. \$50,000 to Account 59510, Center 0900, Program 000;
 - 3. \$21,874 to Account 51610, Center 0900, Program 000;
 - 4. \$2,337 to Account 51010, Center 0900, Program 000;
 - g. Transfer \$150,000 from the Adopted Operating Expense Budget, Account 54290, Center 0422, Program 000 to Account 59510, Center 0900, Program 000;
 - h. Transfer \$101,000 from the Adopted Operating Expense Budget, Account 54420, Center 0570, Program 000 to Account 51110, Center 0412, Program 000;
 - i. Transfer \$100,000 from the Adopted Operating Expense Budget, Account 55110, Center 0311, Program 000 as follows:
 - 1. \$66,129 to Account 51110, Center 0412, Program 000;
 - 2. \$33,871 to Account 51010, Center 0900, Program 000;
 - j. Transfer \$83,700 from the Adopted Operating Expense Budget, Account 52030, Center 0900, Program 000 to Account 51010, Center 0900, Program 000;
3. Direct the Board Secretary to transmit the Resolution to the Mayor for approval pursuant to Section 343(b) of the City Charter;
4. Direct the Board Secretary to notify the City Clerk of such transfer pursuant to Section 343(d) of the City Charter at the time such transfer is made; and
5. Adopt Resolution No. _____.

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DISCUSSION:

Background/Context – The Harbor Department’s Adopted Operating Expense budget is classified into the following eight budget categories: Salaries and Benefits, Marketing and Public Relations, Travel Expenses, Outside Services, Materials and Supplies, City Services, Allocations, and Other Operating Expenses. Transfer of funds from one budget category to another requires approval by the Board as stated in Charter section 343(b): “The general manager of any department having control of its own funds may make application in writing to the board having control and management over the department for a transfer of amounts from one budget item to another in the annual budget of the department, or to a new item created after adoption of the annual budget.” The proposed transfer request is required to fund Salaries and Benefits, Electric Services, and Environmental Incentive expenditures within the Harbor Department, as follows:

Transfer of \$2,000,000 to Salaries and Benefits – Staff anticipates a \$600,000 shortfall in Regular Salaries and a \$400,000 shortfall in Employee Benefits Expenses for the overall Harbor Department as well as a \$1,000,000 shortfall for Overtime expenses incurred specifically within the Port Police Division.

The Department-wide \$600,000 Regular Salaries and \$400,000 Employee Benefits Expenses shortfalls have arisen primarily as a result of: (i) mandated payouts for retroactive cost-of-living adjustments (COLAs) to a majority of Port employees, (ii) mandated benefit parity payouts for eligible employees in the Engineers and Architects Association (EAA) Union, and (iii) other mandated one-time MOU payments and allowance payouts. In recent years, as growth in operating expenses has outpaced growth in operating revenues, staff has generally reduced funding for unanticipated expenses. While sufficient funding does not exist within the Salaries and Benefits category to fund these retroactive and unanticipated items, staff has identified surplus funding across other expense categories to offset the anticipated Department-wide Salaries and Benefits funding shortage.

Additionally, the Port Police Division is expecting a \$1,000,000 Overtime shortfall. In the last few years, the level of overtime used by the division has exceeded amounts budgeted, but the Harbor Department had been able to cover these deficits with savings from the Regular Salaries and Employee Benefits Expense accounts. However, this year the Harbor Department is unable to absorb these costs due to the aforementioned employee payouts. The Port Police Division has found it difficult to balance the need to ensure a safe and secure port environment with fiscal prudence as salaries for sworn staff have gone up by an average of 6.8% and bonuses have increased, both resulting from recently negotiated employee MOUs. Further, the Port Police Division expects to end the fourth quarter with a higher number of overtime hours as compared to past years due to COVID-19 related requirements such as the deployment of sworn and security staff in

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support of the USNS Mercy, manning of the temperature monitoring station by security staff at the Port Police Headquarters, and assistance with staffing the Department Operations Center and the City of Los Angeles' Emergency Operations Center.

While sufficient funding does not exist within the Salaries and Benefits category to fund these higher Port Police overtime expenses, staff has identified surplus funding across other expense categories to offset the anticipated Port Police overtime expense funding shortage.

Transfer of \$1,000,000 to Electricity Services – Staff anticipates a \$1,000,000 shortfall related to electricity expenses incurred within the Harbor Operating Division. The Harbor Department incurs electricity expenses for not only electricity usage at Harbor Department facilities, but also electricity utilized by terminal operators as part of the Alternative Maritime Power (AMP) program.

The AMP program enables vessels docked at the Port of Los Angeles to plug in to shore-side electrical power in lieu of running on the ship's power while berthing. While it is reimbursed for anywhere from 95% - 99% of AMP expenses, the Harbor Department records AMP expenses incurred separately from AMP reimbursements received. As a result, sufficient funding does not currently exist to cover the higher AMP expenses incurred by the Harbor Department in advance of being reimbursed by terminal operators and cruise passenger AMP system fees, as appropriate.

While sufficient funding does not exist within the Other Operating Expenses category to fund these higher electricity expenses, staff has identified surplus funding across other expense categories to offset the anticipated electricity expense funding shortage. The transfer of \$1,000,000 to the FY 2019/20 Electricity Expense budget will increase funding from the Adopted \$15,638,300 to an Adjusted level of \$16,638,300.

Transfer of \$582,000 to Customer Environmental Subsidies and Incentives – Staff anticipates a \$582,000 shortfall related to environmental subsidies and incentives incurred within the Environmental Management Division (EMD). EMD is responsible for developing comprehensive strategies to reduce port-related pollution so that port development and the economic activity associated with that development can continue. These pollution-mitigation strategies are largely described within the Clean Air Action Plan and include, but are not limited to, the Vessel Speed Reduction (VSR) Program, the Environmental Shipping Index (ESI) Program and the Technology Advancement Program (TAP).

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The VSR Program provides vessel operators with an incentive for eligible vessels that reduce their speed to 12 knots or less when entering the port, and the ESI Program rewards vessel operators with high performing ocean-going vessels under an internationally approved clean ship rating. The TAP provides funds to develop and test promising clean air technologies in a real-world port environment. In FY 2019/20, EMD budgeted \$3,150,000 for these environmental incentives: \$1,700,000 for the VSR Program, \$1,000,000 for the TAP, and \$450,000 for ESI. EMD is now requesting an additional \$300,000 to cover higher than anticipated participation in the VSR Program and an additional \$282,000 for the TAP. In managing the budget for the TAP, the Division aligns the payouts with project milestones and available fiscal year funding. As surplus funds are available in the division's Outside Services accounts, the division is requesting to make a larger payment in FY 2019/20, which will allow the division to meet project commitments without increasing the TAP budget in the coming fiscal year. The transfer of \$582,000 from EMD's Outside Services category to the FY 2019/20 Customer Environmental Subsidies and Incentives budget will increase funding from the Adopted \$3,150,000 to an Adjusted level of \$3,732,000.

Surplus – The FY 2019/20 Adopted Operating Expense Budget includes total funding of \$278,046,454 within all eight budget categories, and as of April 28, 2020, staff forecasts that a total surplus of \$3,582,000 will be available to fund shortages. This surplus funding is comprised of \$3,018,208 within the Outside Services category, \$380,092 within the Travel Expenses category, \$83,700 within the Marketing and Public Relations category, and \$100,000 within the Materials and Supplies category.

ENVIRONMENTAL ASSESSMENT:

The proposed action is for approval of budgetary transfers from the Adopted Operating Expense Budget's Marketing and Public Relations, Travel Expenses, Outside Services, and Materials and Supplies categories to the Adopted Operating Expense Budget's Salaries and Benefits, and Other Operating Expenses categories. These transfers will cover the anticipated shortfall within the Salaries and Benefits category for Regular Salaries, Employee Benefits Expenses, and Overtime; as well as the shortfall in the Other Operating Expenses category for Electricity and Environmental Incentives, which is an activity involving continuing administrative and personnel-related activities. 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.

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FINANCIAL IMPACT:

The proposed transfer of funds will not result in an increase to the FY 2019/20 Operating Expense Budget as funds are being transferred between categories within the Adopted Budget. The Salaries and Benefits category will increase by \$2,000,000 from \$145,910,516 to \$147,910,516 while the Other Operating Expenses category will increase by \$1,582,000 from \$41,384,743 to \$42,966,743. Conversely, the Outside Services category will decrease by \$3,018,208 from \$39,637,969 to \$36,619,761; the Travel Expense category will decrease by \$380,092 from \$1,101,846 to \$721,754; the Marketing and Public Relations category will decrease by \$83,700 from \$3,164,122 to \$3,080,422; and the Materials and Supplies category will decrease by \$100,000 from \$7,767,488 to \$7,667,488. The overall FY 2019/20 Adopted Budget will remain unchanged at \$278,046,454. See the table below for a breakdown of the transfer request:

TABLE 1: FY 2019/20 ADOPTED EXPENSE BUDGET WITH TRANSFERS, BY OPERATING EXPENSE CATEGORIES

Expense Category	Adopted FY 2019/20	Current Transfer Request	Adjusted FY 2019/20
Salaries and Benefits	\$ 145,910,516	\$ 2,000,000	\$ 147,910,516
Marketing & Public Relations	3,164,122	(83,700)	3,080,422
Travel	1,101,846	(380,092)	721,754
Outside Services	39,637,969	(3,018,208)	36,619,761
Materials and Supplies	7,767,488	(100,000)	7,667,488
City Services	55,375,486	-	55,375,486
Allocations to Capital	(16,295,716)	-	(16,295,716)
Other Operating Expenses	41,384,743	1,582,000	42,966,743
TOTAL	\$ 278,046,454	-	278,046,454

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CITY ATTORNEY:

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

FIS Approval: MB

CA Approval: JS



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APPROVED:


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