



THE PORT  
OF LOS ANGELES  
Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: MAY 25, 2023**

**FROM: FINANCIAL PLANNING & ANALYSIS**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - ADOPTION OF PROPOSED FISCAL YEAR 2023/24 ANNUAL BUDGET**

**SUMMARY:**

Staff requests approval of the Fiscal Year (FY) 2023/24 Proposed Annual Budget (Proposed Budget) of \$2,020,804,969. 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	\$ 652,862,946	Operating Expenses	\$ 372,352,064
Non-Operating Receipts	22,731,610	Non-Operating Expenses	33,092,325
Grant Receipts (Capital)	47,962,114	Capital Budget	252,316,588
Debt Issuance Proceeds	-	Debt Repayments & Other	64,497,759
<b>Available Cash:</b>		<b>Projected Year-End Balances:</b>	
Unrestricted Funds	1,216,257,030	Unappropriated Balance	1,197,733,510
Restricted Funds	80,991,269	Restricted Cash	100,812,723
<b>Total Sources</b>	<b>\$2,020,804,969</b>	<b>Total Appropriations</b>	<b>\$2,020,804,969</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 Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;

## SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET

2. Adopt the Fiscal Year 2023/24 Proposed Annual Budget for the City of Los Angeles Harbor Department and appropriate funds in accordance herewith, pursuant to Section 511(b) of the City Charter;
3. Authorize the Executive Director, or his designee, to make any technical adjustments consistent with the Board action(s) to the Fiscal Year 2023/24 Proposed Annual Budget documents in the implementation of this budget;
4. Approve the transfer of \$17,624,847 from the Harbor Revenue Fund, Account 11010, Center 7000, Program 000 to the Harbor Special Operating Fund, Account 11035, Center 7000, Program 000;
5. Direct the Board Secretary to transmit the Resolution and Annual Budget to the Mayor and Controller pursuant to Section 511(b) of the City Charter; and
6. Adopt Resolution No. \_\_\_\_\_.

**DISCUSSION:****Financial Performance Goals**

Projected financial performance for FY 2023/24 relative to the current year is summarized below:

TABLE 2: KEY BUDGET COMPONENTS

	Adopted Budget FY 2022/23	Forecast FY 2022/23	Proposed Budget FY 2023/24	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Cargo Volumes (TEUs)	9.85M	8.49M	8.92M	(9.4%)	5.1%
Operating Revenues	\$628.1M	\$601.3M	\$652.9M	3.9%	8.6%
Operating Expenses	\$334.0M	\$314.5M	\$372.4M	11.5%	18.4%
Income before Depreciation	\$294.1M	\$286.8M	\$280.5M	(4.6%)	(2.2%)
Net Income	\$81.3M	\$108.1M	\$116.0M	42.8%	7.4%
Capital Improvement Program	\$180.5M	\$153.0M	\$216.5M	19.9%	41.5%

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 2023/24
Debt Rating	AA	AA+
Debt Service Coverage Ratio	2.0x	4.4x
Operating Margin	45.0%	43.0%
Days Cash on Hand	500	500+

**SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET**

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 2022, and divisions submitted their proposed budgets in late November 2022. After holding internal discussions with senior management in February 2023, Harbor Department staff presented an initial overview of the Proposed Budget to the Board in April 2023.

In late March 2023, 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 2023 presentation of the Proposed Budget to the Board, FY 2023/24 Proposed Operating Revenues increased by \$627,136. This increase occurred primarily as a result of increases in cruise wharfage and space assignment fees, which was partially offset by a reduction in forecasted Clean Truck Fund Rate fees and Marine Oil Terminals Engineering and Maintenance Standards reimbursements.

In addition, subsequent adjustments and changes were made to the FY 2023/24 Proposed Operating Expenses, with a total overall reduction of \$3.1 million outlined below:

**TABLE 4: SUMMARY OF CHANGES TO PROPOSED TOTAL OPERATING EXPENSES FOLLOWING APRIL 2023 BOARD MEETING**

<b>Proposed Total Operating Expenses, April 2023</b>	<b>\$ 375,495,792</b>
Additions / (Reductions):	
Port Optimizer – Additional Development	\$1,500,000
Outside Services for Environmental Management Division	700,000
Salaries & Benefits Changes (Lower Attrition & Increases to CIP projects)	344,047
Oracle Extended Support Subscription Adjustments	219,225
Clean Truck Fund Rate Subsidies – Zero Emission Pilot Deployment	(2,500,000)
Oracle ERP Cloud Project – Staff Augmentation/Business System Analysts	(3,407,000)
<b>Proposed Total Operating Expenses, June 2023</b>	<b>\$ 372,352,064</b>

Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2023 through June 30, 2024.

## SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET

**Sources of Funds for Proposed Budget**

Sources of funds for the Proposed Budget are expected to increase relative to the FY 2022/23 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 2022/23 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2022/23	Forecast FY 2022/23	Proposed Budget FY 2023/24	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Receipts	\$ 628,102	\$ 601,325	\$ 652,863	3.9%	8.6%
Non-Operating Receipts	54,483	48,535	22,732	(58.3%)	(53.2%)
Grant Receipts (Capital)	30,871	42,405	47,962	55.4%	13.1%
Debt Issuance Proceeds	-	-	-	n/m	n/m
Unrestricted Funds	1,101,122	1,144,153	1,216,257	10.5%	6.3%
Restricted Funds	72,412	59,339	80,991	11.8%	36.5%
<b>Total Sources</b>	<b>\$ 1,886,990</b>	<b>\$ 1,895,757</b>	<b>\$ 2,020,805</b>	<b>7.1%</b>	<b>6.6%</b>

**Operating Receipts**

Comprising 32.3% 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 2022/23 Forecast (Forecast).

**TABLE 6: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS  
TO THE FY 2022/23 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2022/23	Forecast FY 2022/23	Proposed Budget FY 2023/24	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Shipping Services	\$ 439,656	\$ 431,094	\$ 478,310	8.8%	11.0%
Rentals	93,944	101,293	98,580	4.9%	(2.7%)
Royalties and Fees	4,589	7,193	7,033	53.3%	(2.2%)
Clean Truck Fees	47,699	33,672	34,774	(27.1%)	3.3%
Other Operating	42,214	28,073	34,166	(19.1%)	21.7%
<b>Total Operating Receipts</b>	<b>\$ 628,102</b>	<b>\$ 601,325</b>	<b>\$ 652,863</b>	<b>3.9%</b>	<b>8.6%</b>
<b>Cargo Volumes (TEUs in Thousands)</b>	<b>9,850</b>	<b>8,494</b>	<b>8,925</b>	<b>(9.4%)</b>	<b>5.1%</b>

FY 2022/23 Forecast cargo volumes of 8.494 million are projected to decrease by 20.4% relative to the prior year FY 2021/22 Actuals and decrease by 13.8% relative to the Adopted Budget. Looking forward to FY 2023/24, cargo volumes of 8.925 million are expected to decline by 9.4% relative to the Adopted Budget, but increase by 5.1% relative to the Forecast.

Operating Receipts will continue to be driven by cargo-related activities, as Shipping Services Revenue is anticipated to comprise approximately 73.3% of the \$652.9 million in projected total Operating Receipts. The increase in total Operating Receipts as

**SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET**

compared to the Adopted Budget results from higher anticipated revenue from Shipping Services due to a slight increase in container wharfage following implementation of the 2022 general rate increase as well as higher cruise wharfage. This increase is expected to be partially offset by a decline in Clean Truck Fees which are expected to decrease relative to the Adopted Budget due to a decline in cargo volumes.

**Non-Operating Receipts**

Proposed Non-Operating Receipts of \$22.7 million include \$19.1 million in investment and interest income and \$3.6 million in grants. The Federal Departments of Homeland Security and Transportation are providing the majority of the grant funding for Port Security System operations and maintenance, and for Port Optimizer development. Proposed Non-Operating Receipts are anticipated to decrease relative to the Adopted Budget and Forecast primarily due to significantly lower pass-through grant receipts as major environmental demonstration projects are completing in the spring of 2023.

**Capital Grant Receipts**

Anticipated to comprise \$48.0 million of the Proposed Budget, Capital Grant Receipts are expected to increase by \$17.1 million relative to the Adopted Budget. Major projects receiving capital grant funding in FY 2023/24 include the Goods Movement Training Campus (which can be categorized as a direct funding appropriation from the State of California), the Alameda Corridor Southern Terminus Gap Closure, and the State Route 47/Vincent Thomas Bridge & Front St./Harbor Blvd. Interchange Reconfiguration and Connector Projects.

**Available Cash-on-Hand**

The Proposed Budget includes Restricted Funds and Unrestricted Funds, which comprise 4.0% and 60.2% 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 \$81.0 million for purposes such as debt service reserves, mitigation projects related to the China Shipping Mitigation Fund, Clean Truck Fund Rate reserves, 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 and City Charter 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 2023/24, 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 \$1.2 billion in unrestricted cash which, based upon proposed Operating Expenses of \$372.4 million, would be sufficient to meet one of the criteria necessary to maintain the Port's current "AA+" debt rating.

## SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET

**Proposed Budget Appropriations**

Proposed Budget Appropriations are expected to increase by 7.1% relative to the Adopted Budget, due primarily to an increase in the Capital Budget, the Unappropriated Balance, and Operating Expenses.

**TABLE 7: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS  
TO THE FY 2022/23 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2022/23	Forecast FY 2022/23	Proposed Budget FY 2023/24	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Expenses	\$ 334,040	\$ 314,507	\$ 372,352	11.5%	18.4%
Capital Budget	211,827	179,471	252,317	19.1%	40.6%
Non-Operating Expenses	107,031	68,100	33,092	(69.1%)	(51.4%)
Debt Repayments and Other	92,696	36,431	64,498	(30.4%)	77.0%
Unappropriated Balance (UB)	1,036,359	1,216,257	1,197,733	15.6%	(1.5%)
Restricted Cash	105,037	80,991	100,813	(4.0%)	24.5%
<b>Total Appropriations</b>	<b>\$ 1,886,990</b>	<b>\$ 1,895,757</b>	<b>\$ 2,020,805</b>	<b>7.1%</b>	<b>6.6%</b>

**Operating Expenses**

The FY 2023/24 Proposed Budget includes total Operating Expenses of \$372.4 million, which represents an increase of 11.5% relative to the Adopted Budget and 18.4% 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 Outside Services, Other Operating Expenses, Salaries and Benefits, and City Services (see Table 11 for more details regarding Other Operating Expenses).

**TABLE 8: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES  
TO THE FY 2022/23 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2022/23*	Forecast FY 2022/23	Proposed Budget FY 2023/24	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Salaries & Benefits	\$ 161,114	\$ 152,443	\$ 177,259	10.0%	16.3%
Marketing & Public Relations	3,336	3,327	3,556	6.6%	6.9%
Travel	1,106	863	1,221	10.4%	41.4%
Outside Services	46,746	43,846	53,278	14.0%	21.5%
Materials & Supplies	7,223	6,869	7,274	0.7%	5.9%
City Services	61,207	56,975	66,758	9.1%	17.2%
Allocations to Capital	(19,476)	(19,476)	(19,710)	1.2%	1.2%
Other Operating Expenses	72,784	69,660	82,716	13.6%	18.7%
<b>Total Operating Expenses</b>	<b>\$ 334,040</b>	<b>\$ 314,507</b>	<b>\$ 372,352</b>	<b>11.5%</b>	<b>18.4%</b>

\*The Adopted Budget includes \$3.5 million in transfers across Operating Expense categories, which were approved by the Board in FY 2022/23 and did not change the total Operating Expense budget of \$334.0.

**Salaries & Benefits** of \$177.3 million (net of \$15.6 million in capitalization) have been included within the Proposed Budget in order to support 1,005 authorized positions. With the Harbor Department's historical vacancy rate at 8.5% and the department's intent to hold 20 of the 80 Separation Incentive Program (SIP) positions vacant, the FY 2023/24 Proposed Budget for Salaries and Benefits includes funding for an average of 900 positions. Through holding 20 SIP positions vacant, the Harbor Department projects a savings of \$3.1 million for FY 2023/24. The \$177.3 million Salaries and Benefits budget

## SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET

supports 27 divisions with Port Police and Construction & Maintenance comprising the largest Salaries and Benefits budgets among the 27 divisions.

Note: The \$15.6 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, \$192.8 MILLION)**

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2023/24	Proposed Salaries & Benefits as a % of Total
Port Police	226	\$ 43,718	25.2%
Construction and Maintenance	296	40,702	23.5%
Port Pilots	33	13,016	7.5%
Engineering	90	12,958	7.5%
Cargo Marketing, Planning, & Real Estate Divisions	61	10,944	6.3%
Finance	61	9,429	5.4%
Information Technology	45	9,179	5.3%
Construction	69	8,559	4.9%
Stakeholder Engagement Bureau	35	6,940	4.0%
Human Resources & Contracts and Purchasing	36	6,770	3.9%
Environmental Management	29	5,207	3.0%
Executive & Commission	20	4,743	2.7%
Goods Movement	4	1,113	0.6%
<b>Total</b>	<b>1,005</b>	<b>\$ 173,278</b>	<b>100.0%</b>

\*The total Proposed Budget for FY 2023/24 of \$173,278 in this table does not match the net Salaries & Benefits budget of \$177.3 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 \$16.1 million due to:

- ↑ \$7.3 million in Memorandum of Understanding (MOU) mandated increases to salaries, salary step increases, position upgrades, and the addition of 6 new full-time positions;
- ↑ \$3.6 million in higher pension and health care contributions;
- ↑ \$2.6 million in lower Salary & Benefits attrition savings largely driven by the reduction of SIP positions held vacant (from 33 to 20 positions);
- ↑ \$2.0 million in higher bonuses and miscellaneous employee benefits pay;
- ↑ \$1.2 million in lower direct Salaries & Benefits allocation to capital; and
- ↑ \$0.1 million in higher Overtime; partially offset by:
- ↓ \$0.7 million reduction for one-time salary reopener payouts that occurred in FY 2022/23 for employees in bargaining units represented by the Engineers & Architects Association (EAA) and Municipal Construction Inspectors Association (MCIA).

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET

Marketing & Public Relations expenses of \$3.6 million include Port-wide marketing activities such as customer and community outreach, and sponsorships. Proposed expenses in this category are increasing by 6.6% relative to the Adopted Budget and 6.9% relative to the Forecast because of increases to event, sponsorship, and government/community promotional spending. The Proposed Budget includes \$1.6 million for the Community Sponsorship Program.

Travel expenses of \$1.2 million are primarily allocated towards marketing efforts to retain and grow business, and promote employee development. Of the \$1.2 million in proposed domestic, foreign, and local travel expenses, \$353,500 or 29.0% is budgeted within the Executive Office and \$254,500 or 20.8% 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 41.4% increase relative to the Forecast as travel is expected to increasingly normalize to pre-pandemic levels.

Outside Services of \$53.3 million include an overall \$9.4 million increase relative to the Forecast as increases in information system consulting; maintenance for dredging, wharves, land, equipment, and grounds; environmental assessment services; graphics services; and computer hardware and software; are partially offset by decreases to hiring hall; maintenance for buildings, streets, bridges and rail; and legal services.

The largest components of proposed Outside Services are \$19.5 million or 36.7% for IT services (including information systems consulting, and maintenance for software & hardware); \$10.6 million or 19.9% for maintenance services (including buildings; wharves; equipment; dredging; grounds; open facilities & land; and streets, bridges & railroads); \$6.5 million or 12.2% for environmental assessment services; and \$3.1 million or 5.7% for cruise terminal operations, among others as illustrated in the table below. Approximately \$1.7 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 2023/24	Proposed as a % of Total
IT Systems Consulting and Hardware/Software Maintenance	\$ 19,535	36.7%
Maintenance – Building; Wharves; Equipment; Dredging; Grounds; Open Facilities and Land; and Streets, Bridges & Railroads	10,606	19.9%
Environmental Assessment Services & Site Restoration	6,485	12.2%
Security Camera and other Security System Maintenance & Repair	3,100	5.8%
Cruise Terminal Operations	3,057	5.7%
Outside Legal Counsel	2,198	4.1%
Hiring Hall Salaries and Benefits	2,136	4.0%
Other	6,161	11.6%
<b>Total Outside Services</b>	<b>\$ 53,278</b>	<b>100.0%</b>

Materials & Supplies spending of \$7.3 million represents a \$50,833 increase compared to the Adopted Budget and a \$405,314 increase compared to the Forecast. Increased

## SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET

spending for parts & materials and operating materials & supplies, which is partially offset by reductions to equipment fuels, office equipment, postage, shipping, & delivery, and tools & equipment, drives the year-to-year increase relative to the Forecast.

**City Services** of \$66.8 million are for services rendered by other City departments for Port operations. The primary drivers of this budget category include \$41.1 million for Fire Department services, \$14.0 million for recreational facilities operated by the Department of Recreation and Parks (i.e. Cabrillo Marine Aquarium, parks, museums), and \$6.8 million for City Attorney services. Proposed expenses are 9.1% higher as compared to the Adopted Budget and 17.2% as compared to the Forecast due to mandated MOU increases for Salaries and Benefits and increased levels of staffing at Recreation and Parks as staffing normalizes to pre-pandemic levels.

**Overhead Allocations to Capital** of \$19.7 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 2022/23 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2022/23	Forecast FY 2022/23	Proposed Budget FY 2023/24	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Utilities	\$ 27,923	\$ 31,261	\$ 36,650	31.3%	17.2%
Environmental Initiatives	18,963	13,247	19,970	5.3%	50.8%
Customer Incentives	12,872	11,018	11,210	(12.9%)	1.7%
Insurance	4,686	4,591	5,156	10.0%	12.3%
Litigation/Workers' Comp Claims	2,250	2,250	2,500	11.1%	11.1%
Telephone	1,816	1,813	2,054	13.1%	13.3%
Taxes & Assessments	1,095	1,088	1,492	36.3%	37.1%
Other Operating Expenses	3,179	4,392	3,684	15.9%	(16.1%)
<b>Total Other Operating Expenses</b>	<b>\$ 72,784</b>	<b>\$ 69,660</b>	<b>\$ 82,716</b>	<b>13.6%</b>	<b>18.7%</b>

The \$36.7 million appropriation for Utilities represents 44.3% of total Other Operating Expenses within the Proposed Budget. Consisting primarily of \$34.3 million for electricity expenses, the overall proposed utility spending is budgeted to increase by 17.2% in the coming year, compared to this year's Forecast. Proposed electricity expenses consisting of \$25.0 million in Alternative Maritime Power (AMP™) related expenses, nearly all of which are reimbursed by customers, are expected to increase in FY 2023/24, relative to the Forecast, due to higher forecasted cargo volumes and increased electricity rates.

The Proposed Budget also includes \$11.2 million for container, shipping, and cruise incentive programs to drive business to the Port and to improve efficiency. The Port has budgeted \$2.5 million for the Ocean Common Carrier (OCC), \$2.7 million for the Dual Transaction, \$3.0 million for the Truck Turn-Time Incentive Programs, and \$0.6 million

## SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET

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 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, whereby truck drivers drop off a container and pick up another during the same trip. The FY 2023/24 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 \$20.0 million appropriation for environmental initiatives includes \$13.1 million for zero emission trucks subsidies, and infrastructure and technology investments, which are funded by the new clean truck fee; \$2.9 million for administration of the Clean Truck Program and collection of the new clean truck fee; \$2.3 million in incentive payouts for the Vessel Speed Reduction Program; \$1.2 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 \$252.3 million is projected to increase by 19.1% relative to the Adopted Budget and 40.6% relative to the Forecast.

TABLE 12: COMPARISON OF PROPOSED CAPITAL BUDGET  
TO THE FY 2022/23 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2022/23	Forecast FY 2022/23	Proposed Budget FY 2023/24	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Capital Improvement Program:					
Terminal Improvements	\$ 69,690	\$ 66,461	\$ 99,529	42.8%	49.8%
Transportation Projects	11,542	6,838	22,474	94.7%	228.7%
Security Projects	4,231	4,118	1,990	(53.0%)	(51.7%)
Public Access / Env. Enhancements	48,895	44,503	24,494	(49.9%)	(45.0%)
Maritime Services	46,188	31,059	68,032	47.3%	119.0%
<b>Capital Improvement Program, Total</b>	<b>180,546</b>	<b>152,979</b>	<b>216,519</b>	<b>19.9%</b>	<b>41.5%</b>
Capitalized Expenditures					
Land & Property Acquisition	-	-	-	-	-
Equipment Purchases	11,805	7,015	16,088	36.3%	129.4%
<b>Total Capital Budget</b>	<b>\$ 211,827</b>	<b>\$ 179,470</b>	<b>\$ 252,317</b>	<b>19.1%</b>	<b>40.6%</b>

**Capital Improvement Program (CIP)** - The \$216.5 million Proposed CIP Budget is 19.9% higher relative to the Adopted Budget and 41.5% higher relative to the Forecast.

In FY 2023/24, \$99.5 million, or 46.0% of the Proposed CIP, is budgeted for Terminal Improvement projects with funding for these projects increasing by 42.8% or approximately \$30 million as compared to the Adopted Budget. \$29.7 million has been budgeted for the Pier 400 Corridor Storage Track Expansion to improve functionality on the pier by extending the existing rail bridge; building five new railroad storage tracks, an

**SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET**

asphalt access roadway, and new crossovers and switches; as well as modifying the existing compressed air system. Improvements for various projects at the Fenix/CGA CGM terminal (Berths 300-306) are funded at \$24.4 million. Projects include an On-Dock Railyard expansion to build 17,500 linear feet of new track, Wharf and Backland improvements to build a new concrete wharf, and a Rail Mounted Gantry (RMG) Crane Rail and Foundation improvements. Other terminal improvements throughout the Port are budgeted for \$45.4 million in the upcoming fiscal year.

Transportation projects (roadway and rail improvements) are budgeted at \$22.5 million or 10.4% of the Proposed CIP Budget and include a budget of \$19.0 million for the State Route 47/Vincent Thomas Bridge & Front Street/Harbor Boulevard Interchange Reconfiguration, which is set to begin construction in December 2023. This project, which includes a complete modification of the current on and off ramps, will help improve access to and safety within the area. Interchange Improvements on Navy Way and Seaside Avenue, which will modify the existing intersection to improve traffic operations, are budgeted at \$1.1 million. An additional \$2.4 million is allocated for various other transportation improvement projects to promote the faster, safer, and more efficient movement of trade goods.

The Proposed CIP Budget includes \$2.0 million, or 0.9% of the proposed budget for Security projects at the Port. With funding of \$667 thousand, the Port Cyber Resilience Center aims to create a centralized port-wide system that will reduce the ecosystem risk of cyber incidents that could disrupt the flow of cargo. Perimeter security upgrades to the Port Police Headquarters, budgeted for \$567 thousand with construction completion in November 2023, include increasing protection to the windows, and adding fencing, gate modifications, swing gate improvements, and additional lighting. Other security projects at the Port are budgeted for \$756 thousand in the upcoming fiscal year.

The budget for Public Access/Environmental Enhancement projects is \$24.5 million or 11.3% of the Proposed CIP Budget, which includes \$9.1 million for construction at the San Pedro Waterfront Promenade, which consists of a 30-foot wide and 1,100-foot long promenade along the water's edge. At Berth 100, funding of \$2.6 million is allocated for a new demonstration project to evaluate whether wireless zero emission-charging infrastructure will be the future standard for Port operations. Additionally, other Public Access/Environmental Enhancement Projects at the Port are budgeted for \$12.8 million.

In addition, included in the Proposed CIP Budget is \$68.0 million for Maritime Services for repairs and improvements to Harbor Department facilities and other Port locations, which amounts to 31.4% of the proposed CIP budget. To improve functionalities for various accounting, procurement, and financial modules within the Harbor Department's financial system, the migration of the Port's Oracle E-Business Suite (EBS) to a new Oracle Enterprise Resource Planning (ERP) Cloud system is funded for \$9.8 million in the upcoming fiscal year, with project completion expected in June 2024. A total of \$9.4 million is allocated for various deferred maintenance projects managed by the Harbor Department's Construction and Maintenance division. In January 2024, construction will begin on the demolition of two buildings at Starkist, which is budgeted for \$8.1 million.

**SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET**

Once the buildings have been demolished, the land can be used for temporary storage of light equipment. Various projects at Harbor Department Facilities and other Port locations, are budgeted for a total of \$25.7 million, and additional \$15.0 million has been set aside in the unallocated fund for unanticipated projects or those with major schedule or scope changes.

In conjunction with the Proposed FY 2023/24 CIP Budget, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2023/24 and provides estimated allocations for the subsequent four years along with total project costs. Over the five-year period extending from FY 2023/24 to FY 2027/28, the Harbor Department expects to spend approximately \$1.3 billion 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 2023/24 portion of this plan is being brought before the Board for adoption.

**Capitalized Expenditures** of \$19.7 million include indirect overhead allocations that support the entire, global CIP.

**Capital Equipment Purchases** of \$16.1 million within the Proposed Budget for equipment such as vehicles, vessels, and IT hardware are expected to increase 36.3% relative to the Adopted Budget and by 129.4% compared to the Forecast.

**Non-Operating Expenses**

Budgeted at \$33.1 million, proposed Non-Operating Expenses are expected to be driven by \$25.1 million in interest expenses, \$7.5 million in costs for cancelled capital projects; \$400,000 in state grant pass-through expenses; and \$110,000 in other non-operating expenses. Proposed Non-Operating Expenses are expected to decrease substantially by 51.4%, due to lower pass-through grant expenses, as many environmental demonstration projects are completing in spring 2023.

**Debt Service**

At \$68.4 million, Debt Service is increasing by 1.6% in FY 2023/24 relative to the FY 2022/23 Forecast of \$67.4. The Port currently has \$537.1 million in outstanding senior lien fixed rate debt which is AA+/AA/Aa2 rated by S&P, Fitch, and Moody's.

**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 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.

**SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2023/24 BUDGET**

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.

Given that Proposed Total Operating Expenses are anticipated to increase by 18.4% relative to the Forecast, staff is recommending that \$17,624,847 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 \$17,624,847 transfer has been calculated as follows:

FY 2019 Operating Expenses – Audited	\$ 240,426,486
FY 2020 Operating Expenses – Audited	273,570,529
FY 2021 Operating Expenses – Audited & Restated	272,982,956
FY 2022 Operating Expenses – Audited	254,631,848
FY 2023 Operating Expenses – Adopted	334,039,691
<b>Equals: Five Years of Operating Expenses</b>	<b>\$ 1,375,651,510</b>
<b>Five Year Average Operating Expenses</b>	<b>\$ 275,130,302</b>
Less: Special Operating Fund Balance – Current	(206,506,098)
Less: Emergency/ACTA Fund Balance – Current	(50,999,357)
<b>Equals: Required Transfer</b>	<b>\$ 17,624,847</b>

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is the approval of the FY 2023/24 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 2023/24 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department’s operations and development in the next fiscal year. The \$2,020,804,969 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 2023/24 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 2023/24 Proposed Annual Budget
2. Five-Year Capital Expenditure Plan

FIS Approval: MB (initials)

CA Approval: JMS (initials)



JEFFREY STRAFFORD  
Director of Financial Planning & Analysis



MARLA BLEAVINS  
Deputy Executive Director &  
Chief Financial Officer

APPROVED:



EUGENE D. SEROKA  
Executive Director

Author: Jeffrey Strafford  
MB:JS:FK:JL:MM:EW