

**DATE: MAY 29, 2024**

**FROM: FINANCIAL PLANNING & ANALYSIS**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - ADOPTION OF PROPOSED FISCAL YEAR 2024/25 ANNUAL BUDGET**

**SUMMARY:**

Staff requests approval of the Fiscal Year (FY) 2024/25 Proposed Annual Budget (Proposed Budget) of \$2,623,105,979. 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	\$ 684,714,392	Operating Expenses	\$ 403,695,031
Non-Operating Receipts	46,839,579	Non-Operating Expenses	32,179,692
Grant Receipts (Capital)	96,671,621	Capital Budget	298,081,044
Debt Issuance Proceeds	238,756,801	Debt Repayments & Other	289,753,582
<b>Available Cash:</b>		<b>Projected Year-End Balances:</b>	
Unrestricted Funds	1,357,114,186	Unappropriated Balance	1,336,322,363
Restricted Funds	199,009,400	Restricted Cash	263,074,267
<b>Total Sources</b>	<b>\$2,623,105,979</b>	<b>Total Appropriations</b>	<b>\$2,623,105,979</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;

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2. Adopt the Fiscal Year 2024/25 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 2024/25 Proposed Annual Budget documents in the implementation of this budget;
4. Approve the transfer of \$19,384,841 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 2024/25 relative to the current year is summarized below:

**TABLE 2: KEY BUDGET COMPONENTS**

	Adopted Budget FY 2023/24	Forecast FY 2023/24	Proposed Budget FY 2024/25	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Cargo Volumes (TEUs)	8.92M	8.92M	9.10M	2.0%	2.0%
Operating Revenues	\$652.9M	\$687.7M	\$684.7M	4.9%	(0.4%)
Operating Expenses	\$372.4M	\$347.7M	\$403.7M	8.4%	16.1%
Income before Depreciation	\$280.5M	\$340.0M	\$281.0M	0.2%	(17.3%)
Net Income	\$116.0M	\$211.5M	\$143.3M	23.5%	(32.3%)
Capital Improvement Program	\$216.5M	\$194.3M	\$257.7M	19.0%	32.6%

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 2024/25
Debt Rating	AA	AA+
Debt Service Coverage Ratio	2.0x	4.9x
Operating Margin	45.0%	41.0%
Days Cash on Hand	500	500+

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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 2023, and divisions submitted their proposed budgets in late November 2023. After holding internal discussions with senior management in late January and early February 2024, Harbor Department staff presented an initial overview of the Proposed Budget to the Board in April 2024.

In early April 2024, 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.

On May 1, 2024, the Executive Director of the Harbor Department presented a brief overview of the Proposed Budget to the City's Budget, Finance, & Innovation Committee and answered questions from the committee members. There were official follow-up items regarding the funding of Recreation and Parks positions and "quiet zones" that have already been submitted back to the committee. A response to a different request regarding City Services/general fund positions will be submitted through the Trade, Travel, and Tourism Committee.

Following the April 2024 presentation of the Proposed Budget to the Board, FY 2024/25 Proposed Operating Revenues decreased by \$449,358. This decrease occurred primarily as a result of changes in the twenty-foot equivalent unit (TEU) container mix allocated to the respective container terminals.

In addition, subsequent adjustments and changes were made to the FY 2024/25 Proposed Operating Expenses, with a total overall increase of \$1.7 million as outlined below:

**TABLE 4: SUMMARY OF CHANGES TO PROPOSED TOTAL OPERATING EXPENSES FOLLOWING APRIL 2024 BOARD MEETING**

<b>Proposed Total Operating Expenses, April 2024</b>	<b>\$ 402,044,338</b>
Additions / (Reductions):	
Salaries & Benefits Changes (Payout for Personal Leave, 4 new positions, & 10 upgrades)	\$1,377,457
Real Estate Division Consultant Support	125,000
Cyber Security Operations Center (CSOC) Support	68,000
Audit Management Software	45,000
Server Replacement Support Services	35,236
<b>Proposed Total Operating Expenses, June 2024</b>	<b>\$ 403,695,031</b>

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Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2024, through June 30, 2025.

**Sources of Funds for Proposed Budget**

Sources of funds for the Proposed Budget are expected to increase relative to the FY 2023/24 Adopted Budget (Adopted Budget), primarily due to higher Debt Issuance Proceeds, Unrestricted Funds, and Restricted Funds.

**TABLE 5: COMPARISON OF PROPOSED BUDGET SOURCES OF FUNDS TO THE FY 2023/24 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2023/24	Forecast FY 2023/24	Proposed Budget FY 2024/25	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Receipts	\$ 652,863	\$ 687,678	\$ 684,714	4.9%	(0.4%)
Non-Operating Receipts	22,732	46,774	46,840	106.1%	0.1%
Grant Receipts (Capital)	47,962	57,111	96,672	101.6%	69.3%
Debt Issuance Proceeds	-	-	238,757	n/m	n/m
Unrestricted Funds	1,216,257	1,281,573	1,357,114	11.6%	5.9%
Restricted Funds	80,991	97,652	199,009	145.7%	103.8%
<b>Total Sources</b>	<b>\$ 2,020,805</b>	<b>\$ 2,170,788</b>	<b>\$ 2,623,106</b>	<b>29.8%</b>	<b>20.8%</b>

**Operating Receipts**

Comprising 26.1% 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 2023/24 Forecast (Forecast).

**TABLE 6: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS TO THE FY 2023/24 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2023/24	Forecast FY 2023/24	Proposed Budget FY 2024/25	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Shipping Services	\$ 478,310	\$ 500,025	\$ 502,977	5.2%	0.6%
Rentals	98,580	113,730	107,598	9.1%	(5.4%)
Royalties and Fees	7,033	7,419	6,817	(3.1%)	(8.1%)
Clean Truck Fees	34,774	36,396	36,396	4.7%	0.0%
Other Operating	34,166	30,107	30,926	(9.5%)	2.7%
<b>Total Operating Receipts</b>	<b>\$ 652,863</b>	<b>\$ 687,678</b>	<b>\$ 684,714</b>	<b>4.9%</b>	<b>(0.4%)</b>
<b>Cargo Volumes (TEUs in Thousands)</b>	<b>8,925</b>	<b>8,925</b>	<b>9,103</b>	<b>2.0%</b>	<b>2.0%</b>

FY 2023/24 Forecast cargo volumes of 8.925 million are projected to increase by 3.4% relative to the prior year FY 2022/23 Actuals and remain flat relative to the Adopted Budget. Looking forward to FY 2024/25, proposed cargo volumes of 9.103 million are expected to increase by 2.0% relative to the Adopted Budget and Forecast.

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Operating Receipts will continue to be driven by cargo-related activities, as Shipping Services Revenue is anticipated to comprise approximately 73.5% of the \$684.7 million in projected total Operating Receipts. The slight reduction in total Operating Receipts as compared to the Forecast results from lower rental revenue, which is partially offset by increased Shipping Services revenue in FY 2024/25 due to increased wharfage that is driven by higher cargo volumes.

*Non-Operating Receipts*

Proposed Non-Operating Receipts of \$46.8 million include \$41.8 million in investment and interest income, \$4.4 million in grants, and \$0.7 million in other miscellaneous non-operating receipts. The Federal Departments of Homeland Security, Transportation and Justice are providing grant funding for Port Security System operations and maintenance, for Port Optimizer development, and for 10 of the 15 new Port Police Officers. Proposed Non-Operating Receipts are anticipated to increase relative to the Adopted Budget primarily due to a significant increase in interest income due to higher interest rates.

*Capital Grant Receipts*

Anticipated to comprise \$96.7 million of the Proposed Budget, Capital Grant Receipts are expected to increase by \$48.7 million relative to the Adopted Budget. Major projects receiving capital grant funding in FY 2024/25 include the Goods Movement Workforce Training Facility (which can be categorized as a direct funding appropriation from the State of California), the State Route 47/Vincent Thomas Bridge & Front St./Harbor Blvd. Interchange Reconfiguration and Connector, the Fenix Container Terminal Intermodal Railyard, and the Avalon Pedestrian Bridge.

*Available Cash-on-Hand*

The Proposed Budget includes Restricted Funds and Unrestricted Funds, which comprise 7.6% and 51.7% 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 \$199.0 million for purposes such as debt service reserves, mitigation projects related to the China Shipping Mitigation Fund, Clean Truck Fund Rate and Goods Movement Workforce Training Facility 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 2024/25, 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 \$1.4 billion in unrestricted cash which, based upon proposed Operating

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Expenses of \$403.7 million, would be sufficient to meet one of the criteria necessary to maintain the Port's current "AA+" debt rating.

### Proposed Budget Appropriations

Proposed Budget Appropriations are expected to increase by 29.8% relative to the Adopted Budget, due primarily to an increase in Debt Repayments, the UB, Restricted Cash, the Capital Budget, and Operating Expenses.

TABLE 7: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS  
TO THE FY 2023/24 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2023/24	Forecast FY 2023/24	Proposed Budget FY 2024/25	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Expenses	\$ 372,352	\$ 347,731	\$ 403,695	8.4%	16.1%
Capital Budget	252,317	230,466	298,081	18.1%	29.3%
Non-Operating Expenses	33,092	25,527	32,180	(2.8%)	26.1%
Debt Repayments and Other	64,498	10,941	289,754	349.2%	2548.4%
Unappropriated Balance (UB)	1,197,733	1,357,114	1,336,322	11.6%	(1.5%)
Restricted Cash	100,813	199,009	263,074	161.0%	32.2%
<b>Total Appropriations</b>	<b>\$ 2,020,805</b>	<b>\$ 2,170,788</b>	<b>\$ 2,623,106</b>	<b>29.8%</b>	<b>20.8%</b>

### Operating Expenses

The FY 2024/25 Proposed Budget includes total Operating Expenses of \$403.7 million, which represents an increase of 8.4% relative to the Adopted Budget and 16.1% relative to the Forecast. The increases in total Operating Expenses relative to the Adopted Budget and the Forecast are expected to be driven by increases across almost all expense categories, particularly in Salaries and Benefits, City Services, and Outside Services (see Table 11 for more details regarding the specific components of Other Operating Expenses).

TABLE 8: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES  
TO THE FY 2023/24 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2023/24*	Forecast FY 2023/24	Proposed Budget FY 2024/25	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Salaries & Benefits	\$ 175,217	\$ 165,837	\$ 199,383	13.8%	20.2%
Marketing & Public Relations	3,768	3,742	4,382	16.3%	17.1%
Travel	1,221	1,103	1,404	15.0%	27.3%
Outside Services	53,488	52,629	59,168	10.6%	12.4%
Materials & Supplies	8,894	8,744	7,249	(18.5%)	(17.1%)
City Services	66,758	64,542	68,497	2.6%	6.1%
Allocations to Capital	(19,710)	(19,710)	(20,301)	3.0%	3.0%
Other Operating Expenses	82,716	70,843	83,914	1.4%	18.5%
<b>Total Operating Expenses</b>	<b>\$ 372,352</b>	<b>\$ 347,731</b>	<b>\$ 403,695</b>	<b>8.4%</b>	<b>16.1%</b>

\*The Adopted Budget includes \$2.0 million in transfers across Operating Expense categories, which were approved by the Board in FY 2023/24 and did not change the total Operating Expense budget of \$372.4 million.

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**Salaries & Benefits** of \$199.4 million (net of \$14.1 million in capitalization) have been included within the Proposed Budget in order to support 1,042 authorized positions. With the Harbor Department’s historical vacancy rate at 8.5%, the FY 2024/25 Proposed Budget for Salaries and Benefits includes funding for an average of 953 positions. The \$199.4 million Salaries and Benefits budget supports 27 divisions with Port Police and Construction & Maintenance (C&M) comprising the largest Salaries and Benefits budgets among the 27 divisions.






Note: The \$14.1 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, \$213.4 MILLION)**

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2024/25	Proposed Salaries & Benefits as a % of Total
Port Police	242	\$ 49,483	25.6%
Construction and Maintenance	303	42,459	21.9%
Port Pilots	33	13,133	6.8%
Engineering	91	13,010	6.7%
Finance	64	11,856	6.1%
Cargo Marketing, Planning, Real Estate Divisions & Wharfingers	61	11,571	6.0%
Human Resources & Contracts and Purchasing	39	11,434	5.9%
Information Technology	47	10,729	5.5%
Construction	70	9,458	4.9%
Stakeholder Engagement Bureau	39	8,209	4.2%
Environmental Management	30	5,759	3.0%
Executive & Commission	19	5,394	2.8%
Goods Movement	4	1,126	0.6%
<b>Total</b>	<b>1,042</b>	<b>\$ 193,622</b>	<b>100.0%</b>

\*The total Proposed Budget for FY 2024/25 of \$193,622 in this table does not match the net Salaries & Benefits budget of \$199.4 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 \$24.2 million due to:

-  \$10.7 million in Memorandum of Understanding (MOU) mandated increases to salaries, salary step increases, position upgrades, and the addition of 37 new full-time positions;
-  \$6.6 million in higher pension and health care contributions;
-  \$3.6 million in higher funding for training largely driven by the addition of the new POLA Prep Academy Extension training program;
-  \$1.8 million in lower Salary & Benefits attrition savings largely driven by the restoration of funding for 20 Separation Incentive Program (SIP) positions that were held vacant in FY 2023/24;
-  \$1.6 million for higher vacation and sick leave payouts (starting in FY 2024/25 the cash payment for sick leave payout will be increased from 50% to 100% of an employee’s salary rate);

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- ↑ \$1.5 million in lower direct Salaries & Benefits allocation to capital largely due to the completion of the ERP Cloud Migration project;
  - ↑ \$1.0 million for Personal Leave Payout (starting in FY 2024/25, employees will be paid for up to 24 hours of unused Personal Leave); and
  - ↑ \$0.5 million in higher Overtime;
- partially offset by:
- ↓ \$3.1 million reduction for bonuses (one-time cash bonus for Coalition employees in FY 2023/24 was removed).

**Marketing & Public Relations** expenses of \$4.4 million include Port-wide marketing activities such as customer and community outreach, and sponsorships. Proposed expenses in this category are increasing by 16.3% relative to the Adopted Budget and 17.1% relative to the Forecast because of increases to business promotional, organization/event sponsorship, and government/community promotional spending. The Proposed Budget includes \$2.0 million for the Community Sponsorship Program which is used to provide community grants. This program has increased by \$0.4 million relative to the Adopted Budget.

**Travel** expenses of \$1.4 million are primarily allocated towards marketing efforts to retain and grow business and promote employee development. Of the \$1.4 million in proposed domestic, foreign, and local travel expenses, \$397,793, or 28.3%, is budgeted within the Executive Office and \$253,100, or 18.0%, 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 27.3% increase relative to the Forecast as travel has normalized to pre-pandemic levels.

**Outside Services** of \$59.2 million include an overall \$6.5 million increase relative to the Forecast as increases in maintenance for dredging, open facilities & land, buildings, wharves, and equipment; miscellaneous professional services; Information Technology (IT) systems consulting and software/hardware maintenance; environmental assessment services & site restoration; financial and audit services; and graphic/design services are partially offset by decreases to hiring hall salaries and benefits; legal services; and maintenance for buildings, streets, bridges, railroads, and grounds.

The largest components of proposed Outside Services are \$21.3 million, or 36.1%, for IT services (including information systems consulting, and maintenance for software & hardware); \$11.8 million, or 19.9%, for maintenance services (including buildings, wharves, equipment, dredging, grounds, open facilities & land, streets/bridges & railroads); \$6.9 million, or 11.7%, for environmental assessment services & site restoration; and \$3.2 million, or 5.4%, 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.



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TABLE 10: PROPOSED OUTSIDE SERVICES

(\$ in Thousands)	Proposed Budget FY 2024/25	Proposed as a % of Total
IT Systems Consulting and Hardware/Software Maintenance	\$ 21,332	36.1%
Maintenance – Buildings; Wharves; Equipment; Dredging; Grounds; Open Facilities & Land; and Streets, Bridges & Railroads	11,786	19.9%
Environmental Assessment Services & Site Restoration	6,930	11.7%
Cruise Terminal Operations	3,199	5.4%
Security Camera and other Security System Maintenance & Repair	3,100	5.2%
Hiring Hall Salaries and Benefits	2,455	4.1%
Outside Legal Counsel	1,893	3.2%
Other	8,473	14.4%
<b>Total Outside Services</b>	<b>\$ 59,168</b>	<b>100.0%</b>

**Materials & Supplies** spending of \$7.2 million represents a \$1.6 million decrease compared to the Adopted Budget and a \$1.5 million decrease compared to the Forecast. The Proposed Materials & Supplies budget represents a 17.1% decrease relative to the Forecast as a \$1.6 million mid-year transfer occurred in spring of FY 2023/24. The transfer included \$1.4 million for materials & supplies for C&M and \$0.2 million for office equipment for Information Technology.

**City Services** of \$68.5 million are for services rendered by other City departments for Port operations. The primary drivers of this budget category include \$42.8 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 have increased by 2.6% as compared to the Adopted Budget and 6.1% as compared to the Forecast due to mandated MOU increases for Salaries and Benefits, major upgrades to Fire Boat 4, and increased levels of staffing at Recreation and Parks as staffing normalizes to pre-pandemic levels.

**Overhead Allocations to Capital** of \$20.3 million are indirect expenses that support the global Capital Improvement Program (CIP). Overhead allocations to capital represents a 3.0% increase for this offset account 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.

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**Other Operating Expenses** are summarized as follows:

TABLE 11: COMPARISON OF PROPOSED BUDGET OTHER OPERATING EXPENSES TO THE FY 2023/24 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2023/24	Forecast FY 2023/24	Proposed Budget FY 2024/25	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Utilities	\$ 36,650	\$ 29,846	\$ 33,215	(9.4%)	11.3%
Environmental Initiatives	19,970	15,318	16,465	(17.5%)	7.5%
Customer Incentives	11,210	10,242	14,869	32.6%	45.2%
Insurance	5,156	5,995	6,648	28.9%	10.9%
Litigation/Workers' Comp Claims	2,500	2,500	5,276	111.0%	111.0%
Telephone	2,054	2,051	2,037	(0.8%)	(0.7%)
Taxes, Assessments, & Fees	1,492	1,223	1,299	(13.0%)	6.2%
Other Operating Expenses	3,684	3,667	4,106	11.5%	12.0%
<b>Total Other Operating Expenses</b>	<b>\$ 82,716</b>	<b>\$ 70,843</b>	<b>\$ 83,914</b>	<b>1.4%</b>	<b>18.5%</b>

The \$33.2 million appropriation for Utilities represents 39.6% of total Other Operating Expenses within the Proposed Budget. Consisting primarily of \$30.3 million for electricity expenses, the overall proposed utility spending is budgeted to increase by 11.3% 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 2024/25, relative to the Forecast, due to higher forecasted cargo volumes and increased electricity rates.

The \$16.5 million appropriation for environmental initiatives includes \$10.0 million for zero emission trucks subsidies and infrastructure and technology investments, which are funded by the new clean truck fee; \$2.8 million for administration of the legacy Clean Truck Program and collection of the more recently implemented clean truck fee; \$2.1 million in incentive payouts for the Vessel Speed Reduction Program; \$1.1 million for incentive payouts for the Technology Advancement Program; and \$0.5 million for incentive payouts related to the Environmental Shipping Index.

The Proposed Budget also includes \$14.9 million for container, shipping, and cruise incentive programs to drive business to the Port and to improve efficiency. The Port has budgeted for the following incentive programs: \$6.2 million for the Ocean Common Carrier (OCC), \$5.7 million for the Truck Turn-Time, \$0.6 million for the Ultra-Large Container Vessel, and \$0.1 million for the Dual Transaction. 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 2024/25 Proposed Budget also includes \$2.3 million for the Cruise Incentive Program to encourage a greater number of cruise ship calls to the Port.

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Capital Budget

The Proposed Capital Budget of \$298.0 million is projected to increase by 18.1% relative to the Adopted Budget and 29.3% relative to the Forecast.

TABLE 12: COMPARISON OF PROPOSED CAPITAL BUDGET  
TO THE FY 2023/24 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2023/24	Forecast FY 2023/24	Proposed Budget FY 2024/25	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Capital Improvement Program:					
Terminal Improvements	\$ 99,529	\$ 74,352	\$ 52,247	(47.5%)	(29.7%)
Transportation Projects	22,474	11,312	49,545	120.5%	338.0%
Security Projects	1,990	6,822	6,406	221.9%	(6.1%)
Public Access / Env. Enhancements	24,494	56,312	52,405	114.0%	(6.9%)
Maritime Services	68,032	45,460	97,071	42.7%	113.5%
<b>Capital Improvement Program, Total</b>	<b>216,518</b>	<b>194,258</b>	<b>257,675</b>	<b>19.0%</b>	<b>32.6%</b>
Capitalized Expenditures					
Land & Property Acquisition	-	-	-	3.0%	3.0%
Equipment Purchases	16,088	16,497	20,105	25.0%	21.9%
<b>Total Capital Budget</b>	<b>\$ 252,316</b>	<b>\$ 230,465</b>	<b>\$ 298,081</b>	<b>18.1%</b>	<b>29.3%</b>

**Capital Improvement Program (CIP)** - The \$257.7 million Proposed CIP Budget is 19.0% higher relative to the Adopted Budget and 32.6% higher relative to the Forecast.

In FY 2024/25, \$52.2 million, or 20.3% of the Proposed CIP, is budgeted for Terminal Improvement projects, with funding for these projects decreasing by 47.5%, or approximately \$47.3 million, as compared to the Adopted Budget. At the Pasha terminal, \$14.2 million has been budgeted for the continued construction of a new 382 linear foot concrete wharf on Berths 177 – 178. In compliance with Marine Oil Terminal Engineering Maintenance Standards (MOTEMS), which aim to protect public health and the environment, \$12.5 million has been allocated for improvements at the Shell, PBF Energy, and other marine oil terminals. Other terminal improvements throughout the Port are budgeted for \$25.5 million in the upcoming fiscal year.

Transportation projects (roadway and rail improvements) are budgeted at \$49.6 million or 19.2% of the Proposed CIP Budget and include \$44.3 million for the State Route 47/Vincent Thomas Bridge & Front Street/Harbor Boulevard Interchange Reconfiguration, which is set to finish construction in November 2026. This project, which includes a complete modification of the current on and off ramps, will improve safety, access, and overall operations within the area. The construction of a replacement rail crossing at the entrance of the West Basin Container Terminal on Berth 115 is budgeted for \$1.6 million. An additional \$3.7 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 \$6.4 million, or 2.5% of the proposed budget for Security projects at the Port. With funding of \$2.7 million, 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. The design, construction, and

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delivery of a Port Police Dive Boat is funded at \$2.3 million in FY 2024/25. Other security projects at the Port are budgeted for \$1.4 million in the upcoming fiscal year.

The budget for Public Access/Environmental Enhancement projects is \$52.4 million or 20.3% of the Proposed CIP Budget, which includes \$16.4 million for Public Access Investment Plan (PAIP) projects at the San Pedro Waterfront. These projects include the construction of a 30-foot-wide public promenade at the San Pedro Public Market, the redevelopment of the East 22<sup>nd</sup> Street parking lot to increase the amount of available parking spaces, the expansion of Harbor Boulevard into two travel lanes in each direction, construction on the Cabrillo Marine Aquarium Life Support system, and other miscellaneous projects. With a budget of \$12.1 million, PAIP projects at the Wilmington Waterfront include the design of the Avalon Pedestrian Bridge and Promenade Gateway to provide safe pedestrian access to the promenade, the removal and remediation of the DWP Marine Tank Farm, and work at the Wilmington Waterfront Promenade and Wilmington Youth Sailing and Aquatic Center. Additionally, other Public Access/Environmental Enhancement Projects at the Port are budgeted for \$23.9 million.

In addition, included in the Proposed CIP Budget is \$97.1 million for Maritime Services for repairs and improvements to Harbor Department facilities and other Port locations, which amounts to 37.7% of the proposed CIP budget. Two software enhancement projects are funded for \$14.9 million and include the migration of the Port's Oracle E-Business Suite (EBS) to a new Oracle Enterprise Resource Planning (ERP) Cloud system and enhancements to the Harbor Department's Klein Billing and Port Pilot System. At the Harbor Administration Building (HAB), \$7.2 million has been allocated for projects including the design and construction of the heating, ventilation, and air-conditioning (HVAC) system replacement, the renovation to the Board Hearing Room and Executive Session Room to be compliant with the Americans with Disabilities Act (ADA), the renovation of the Information Technology staff workplaces and expansion of the Service room, and the relocation of the existing mailroom from the second floor to the first floor. Projects at other Harbor Department Facilities have been budgeted for \$8.1 million and include construction at the warehouse and site improvements at Berths 58-60 (AltaSea) to be ADA compliant, design and installation of 140 electric vehicle charging ports, and remodeling of the existing administration building in the C&M yard. Various projects at other Port locations are budgeted for a total of \$43.0 million, and an additional \$23.9 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 2024/25 CIP Budget, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2024/25 and provides estimated allocations for the subsequent four years along with total project costs. Over the five-year period extending from FY 2024/25 to FY 2028/29, 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 10-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 2024/25 portion of this plan is being brought before the Board for adoption.

**Capitalized Expenditures** of \$20.3 million include indirect overhead allocations that support the overall CIP.

**Capital Equipment Purchases** of \$20.1 million within the Proposed Budget for equipment such as vehicles, vessels, and IT hardware are expected to increase 25.0% relative to the Adopted Budget and by 21.9% compared to the Forecast.

Non-Operating Expenses

Budgeted at \$32.2 million, proposed Non-Operating Expenses are expected to be driven by \$22.9 million in interest expenses, \$6.0 million in costs for cancelled capital projects, \$3.2 million in bond issuance costs, and \$52,000 in other non-operating expenses. Proposed Non-Operating Expenses are expected to increase by 26.1% as compared to the Forecast primarily due to higher cancelled capital projects and bond issuance costs.

Debt Service

At \$66.3 million, Debt Service is expected to decrease by 3.1% in FY 2024/25 relative to the FY 2023/24 Forecast of \$68.4 million. The Port currently has \$493.8 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.

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 16.1% relative to the Forecast, staff is recommending that \$19,384,841 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

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Department's Financial Policies. The \$19,384,841 transfer has been calculated as follows:

<b>TABLE 13: PROPOSED SPECIAL OPERATING FUND TRANSFER</b>	
FY 2020 Operating Expenses – Audited	\$ 273,570,529
FY 2021 Operating Expenses – Audited	272,982,956
FY 2022 Operating Expenses – Audited & Restated	253,899,428
FY 2023 Operating Expenses – Audited	299,421,022
FY 2024 Operating Expenses – Adopted	372,352,064
<b>Equals: Five Years of Operating Expenses</b>	<b>\$ 1,472,225,999</b>
<b>Five Year Average Operating Expenses</b>	<b>\$ 294,445,200</b>
Less: Special Operating Fund Balance – Current	(220,966,385)
Less: Emergency/ACTA Fund Balance – Current	(54,093,974)
<b>Equals: Required Transfer</b>	<b>\$ 19,384,841</b>

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is the approval of the FY 2024/25 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.

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**FINANCIAL IMPACT:**

Approval of the FY 2024/25 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department’s operations and development in the next fiscal year. The \$2,623,105,979 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.

**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 2024/25 Proposed Annual Budget
- 2. Five-Year Capital Expenditure Plan

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



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JEFFREY STRAFFORD  
 Director of Financial Planning & Analysis and  
 Interim Chief Financial Officer

APPROVED:

erica calhoun

Digitally signed by erica calhoun  
 Date: 2024.05.30 11:56:33  
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EUGENE D. SEROKA  
 Executive Director

Author: Jeffrey Strafford  
 JS:FK:JL:MU:CD:EO:MM:EW