



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

**DATE: MAY 29, 2025**

**FROM: FINANCIAL PLANNING & ANALYSIS**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - ADOPTION OF PROPOSED FISCAL YEAR 2025/26 ANNUAL BUDGET**

**SUMMARY:**

Staff requests approval of the Fiscal Year (FY) 2025/26 Proposed Annual Budget (Proposed Budget) of \$2,705,630,103. 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, and 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	\$ 657,587,468	Operating Expenses	\$ 427,084,553
Non-Operating Receipts	244,567,818	Non-Operating Expenses	130,035,063
Grant Receipts (Capital)	75,667,503	Capital Budget	278,124,617
Debt Issuance Proceeds	--	Debt Repayments & Other	39,233,138
<b>Available Cash:</b>		<b>Projected Year-End Balances:</b>	
Unrestricted Funds	1,535,576,796	Unappropriated Balance	1,597,922,214
Restricted Funds	192,230,518	Restricted Cash	233,230,518
<b>Total Sources</b>	<b>\$2,705,630,103</b>	<b>Total Appropriations</b>	<b>\$2,705,630,103</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.

**RECOMMENDATION:**

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 2025/26 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/her designee, to make any technical adjustments consistent with the Board action(s) to the Fiscal Year 2025/26 Proposed Annual Budget documents in the implementation of this budget;
4. Approve the transfer of \$8,731,465 from the Harbor Revenue Fund 702, Account 100000 (Cash Harbor Fund – Unrestricted) to the Harbor Special Operating Fund 74J, Account 100045 (Special Pool Cash/Investments – Unrestricted);
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 2025/26 relative to the current year is summarized below:

**TABLE 2: KEY BUDGET COMPONENTS**

	Adopted Budget FY 2024/25	Forecast FY 2024/25	Proposed Budget FY 2025/26	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Cargo Volumes (TEUs)	9.10M	10.00M	8.20M	(9.9%)	(18.0%)
Operating Revenues	\$684.7M	\$778.7M	\$657.6M	(4.0%)	(15.6%)
Operating Expenses	\$416.6M	\$401.4M	\$427.1M	2.5%	6.4%
Income before Depreciation	\$268.1M	\$377.3M	\$230.5M	(14.0%)	(38.9%)
Net Income	\$88.3M	\$258.8M	\$196.3M	122.3%	(24.1%)
Capital Improvement Program	\$249.4M	\$192.5M	\$231.3M	(7.2%)	20.2%

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 2025/26
Debt Rating	AA	AA+
Debt Service Coverage Ratio	2.0x	9.5x
Operating Margin	45.0%	35.1%
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 2024, and divisions submitted their proposed budgets in late November 2024. After holding internal discussions with senior management in late January and early February 2025, Harbor Department staff presented an initial overview of the Proposed Budget to the Board in April 2025.

In early April 2025, 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 April 30, 2025, the Executive Team 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. Subsequently, there were official follow-up items submitted to the committee regarding the Harbor Department’s ability to help absorb positions related to the potential layoffs proposed for general fund departments within the City’s 2025-26 Proposed Budget.

Following the April 2025 presentation of the Proposed Budget to the Board, FY 2025/26 Proposed Operating Revenues decreased by \$55.6 million. This reduction occurred primarily because of lower Wharfage, Pilotage, and Clean Truck Fund Rate revenues due to anticipated lower cargo volumes and ship calls related to recent changes in international trade policy and tariff volatility.

In addition, subsequent adjustments and changes were made to the FY 2025/26 Proposed Operating Expenses, with a total overall increase of \$10.4 million as outlined below:

TABLE 4: SUMMARY OF CHANGES TO PROPOSED TOTAL OPERATING EXPENSES FOLLOWING APRIL 2025 BOARD MEETING

<b>Proposed Total Operating Expenses, April 2025</b>	<b>\$ 416,644,656</b>
Additions / (Reductions):	
Salaries & Benefits Changes (reduced salary and benefit savings rate from 8.5% to 2.8%)	\$13,750,845
Additional funding for Technology Advancement Program	500,250
Consulting costs related to IT equipment	118,793
Funding for Congressional Visits to Port, Sponsorships, and Travel	46,889
Reduction in Equipment reimbursements	(38,100)
Reduction in Recreation and Park City Services due to reduced overhead rate	(841,648)
Lower AMP related electricity costs, offset by an increase in water utility costs	(3,097,132)
<b>Proposed Total Operating Expenses, June 2025</b>	<b>\$ 427,084,553</b>

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Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2025, through June 30, 2026.

**Sources of Funds for Proposed Budget**

Sources of funds for the Proposed Budget are expected to increase relative to the FY 2024/25 Adopted Budget (Adopted Budget), primarily due to higher Non-Operating Receipts and Unrestricted Funds; partially offset by reductions in Debt Issuance Proceeds, Capital Grant Receipts, Operating Receipts, and Restricted Funds.

**TABLE 5: COMPARISON OF PROPOSED BUDGET SOURCES OF FUNDS  
TO THE FY 2024/25 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2024/25	Forecast FY 2024/25	Proposed Budget FY 2025/26	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Receipts	\$ 684,714	\$ 778,676	\$ 657,587	(4.0%)	(15.6%)
Non-Operating Receipts	46,840	53,115	244,568	422.1%	360.4%
Grant Receipts (Capital)	96,672	18,173	75,668	(21.7%)	316.4%
Debt Issuance Proceeds	238,757	243,564	--	(100%)	(100%)
Unrestricted Funds	1,357,114	1,473,292	1,535,576	13.2%	4.2%
Restricted Funds	199,009	202,988	192,231	(3.4%)	(5.3%)
<b>Total Sources</b>	<b>\$ 2,623,106</b>	<b>\$ 2,769,809</b>	<b>\$ 2,705,630</b>	<b>3.1%</b>	<b>(2.3%)</b>

**Operating Receipts**

Comprising 24.3% 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 2024/25 Forecast (Forecast).

**TABLE 6: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS  
TO THE FY 2024/25 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2024/25	Forecast FY 2024/25	Proposed Budget FY 2025/26	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Shipping Services	\$ 502,977	\$ 534,091	\$ 470,315	(6.5%)	(11.9%)
Rentals	107,598	111,767	116,224	8.0%	4.0%
Clean Truck Fees	36,396	42,590	34,924	(4.0%)	(18.0%)
Royalties, Permits, & Fees	6,817	6,987	6,987	2.5%	0.0%
Other Operating Revenues	30,926	83,241	29,137	(5.8%)	(65.0%)
<b>Total Operating Receipts</b>	<b>\$ 684,714</b>	<b>\$ 778,676</b>	<b>\$ 657,587</b>	<b>(4.0%)</b>	<b>(15.6%)</b>
<b>Cargo Volumes (TEUs in Thousands)</b>	<b>9,103</b>	<b>10,000</b>	<b>8,200</b>	<b>(9.9%)</b>	<b>(18.0%)</b>

FY 2024/25 Forecast cargo volumes of 10.00 million are projected to increase by 8.4% relative to the prior year FY 2023/24 Actuals and 9.9% higher relative to the Adopted Budget. Looking forward to FY 2025/26, proposed cargo volumes of 8.20 million are expected to decrease by 9.9% and 18.0% relative to the Adopted Budget and Forecast, respectively, due to volatility in the container shipping industry.

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Operating Receipts will continue to be driven by cargo-related activities, as Shipping Services Revenue is anticipated to comprise approximately 71.5% of the \$657.6 million in projected total Operating Receipts. Primarily driven by reduced cargo volumes, the \$121.1 million reduction in total Proposed Operating Receipts as compared to the Forecast results from lower Shipping Services revenues, Clean Truck Fees, and Harbor Maintenance Tax receipts; partially offset by increased Rental revenues due to scheduled CPI increases for most of the Port's rental leases.

*Non-Operating Receipts*

Proposed Non-Operating Receipts of \$244.6 million include \$116.0 million in Passthrough grants, a \$70.2 million gain from an anticipated sale of properties in east Wilmington, \$43.7 million in interest and investment income, and \$14.7 million in Operating grants and other miscellaneous receipts. The Federal Departments of Homeland Security, Transportation and Justice, and the Environmental Protection Agency are providing grant funding for various projects including the following: Port Security System operations and maintenance, Port Optimizer development, the addition of new Port Police Officers, and the Clean Ports Program. Proposed Non-Operating Receipts are anticipated to significantly increase relative to the Adopted Budget primarily due to the sale of properties in east Wilmington.

*Capital Grant Receipts*

Anticipated to comprise \$75.7 million of the Proposed Budget, Capital Grant Receipts are expected to decrease by \$21.0 million relative to the Adopted Budget. Major projects receiving capital grant funding in FY 2025/26 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 7.1% and 56.8% of the total budget, respectively. Restricted Funds pertain to certain cash holdings and investments that have limitations or constraints on how these funds may be used pursuant to commitments, bond indenture requirements, or agreements. The Proposed Budget includes Restricted Funds totaling \$192.2 million for purposes such as mitigation projects related to the China Shipping Mitigation Fund, Clean Truck Fund Rate and Goods Movement Workforce Training Facility reserves, debt service 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 2025/26, the UB may be used, pending Board approval of each request, to fund unbudgeted expenses which may arise due to unforeseen or extraordinary events.

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Additionally, Unrestricted Funds provide sufficient liquidity to support the Harbor Department's key financial metric to maintain strong credit ratings. The Proposed Budget includes \$1.5 billion in unrestricted cash which, based upon proposed Operating Expenses of \$427.1 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 3.1% relative to the Adopted Budget, due primarily to increases in Non-Operating Expenses, the UB, Restricted Cash, and Operating Expenses; partially offset by reductions in Debt Repayments, Restricted Cash, and the Capital Budget.

**TABLE 7: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS  
TO THE FY 2024/25 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2024/25	Forecast FY 2024/25	Proposed Budget FY 2025/26	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Expenses	\$ 416,623	\$ 401,357	\$ 427,085	2.5%	6.4%
Capital Budget	289,803	225,088	278,125	(4.0%)	23.6%
Non-Operating Expenses	74,232	22,819	130,035	75.2%	469.9%
Debt Repayments and Other	289,754	392,738	39,233	(86.5%)	(90.0%)
Unappropriated Balance (UB)	1,289,620	1,535,577	1,597,922	23.9%	4.1%
Restricted Cash	263,074	192,231	233,231	(11.3%)	21.3%
<b>Total Appropriations</b>	<b>\$ 2,623,106</b>	<b>\$ 2,769,809</b>	<b>\$ 2,705,630</b>	<b>3.1%</b>	<b>(2.3%)</b>

**Operating Expenses**

The FY 2025/26 Proposed Budget includes total Operating Expenses of \$427.1 million, which represents an increase of 2.5% relative to the Adopted Budget and 6.4% 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 most 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).

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TABLE 8: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES TO THE FY 2024/25 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2024/25*	Forecast FY 2024/25	Proposed Budget FY 2025/26	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Salaries & Benefits	\$ 199,383	\$ 191,725	\$ 216,518	8.6%	12.9%
Marketing & Public Relations	4,382	4,337	4,409	0.6%	1.6%
Travel	1,404	1,398	1,909	36.0%	36.6%
Outside Services	63,019	61,540	64,625	2.5%	5.0%
Materials & Supplies	9,394	8,195	9,481	0.9%	15.7%
Rentals, Incentives, & Subsidies	39,499	39,410	36,968	(6.4%)	(6.2%)
City Services	68,497	64,853	72,662	6.1%	12.0%
Other Operating Expenses	51,346	50,200	45,074	(12.2%)	(10.2%)
Allocations to Capital	(20,301)	(20,301)	(24,562)	21.0%	21.0%
<b>Total Operating Expenses</b>	<b>\$ 416,623</b>	<b>\$401,357</b>	<b>\$ 427,085</b>	<b>2.5%</b>	<b>6.4%</b>

\*The Adopted Budget includes \$12.9 million in transfers from the Capital Budget and the Unappropriated Balance, which were approved by the Board in FY 2024/25, increasing the total Operating Expense Budget from \$403.7 million to \$416.6 million.

**Salaries & Benefits** of \$216.5 million (net of \$16.0 million in capitalization) have been included within the Proposed Budget in order to support 1,049 authorized positions. The Harbor Department's historical savings rate has been 8.5%. However, for FY 2025/26, the savings rate was reduced to 2.8% to facilitate the potential absorption of City of Los Angeles employees facing layoffs. With the 2.8% vacancy rate, the FY 2025/26 Proposed Budget for Salaries and Benefits includes funding for an average of 1,020 positions. The \$216.5 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 \$16.0 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, \$232.5 MILLION)

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2025/26	Proposed Salaries & Benefits as a % of Total
Port Police	242	\$ 55,442	26.3%
Construction and Maintenance	303	47,455	22.5%
Port Pilots	35	14,955	7.1%
Engineering	95	14,282	6.8%
Cargo Marketing, Planning, Real Estate Divisions & Wharfingers	60	12,640	6.0%
Information Technology	47	11,497	5.5%
Commission, Contracts & Purchasing, Human Resources, & Risk Management	55	11,101	5.3%
Construction	70	10,838	5.1%
Finance	51	10,231	4.9%
Stakeholder Engagement Bureau	41	8,800	4.2%
Environmental Management	30	6,397	3.0%
Executive & Internal Audit	16	5,573	2.6%
Goods Movement	4	1,278	0.6%
<b>Total</b>	<b>1,049</b>	<b>\$ 210,489</b>	<b>100.0%</b>



\*The total Proposed Budget for FY 2025/26 of \$210,489 in this table does not match the net Salaries & Benefits budget of \$216.5 million because the following expenses are excluded from the table: training for City Attorney and global Salaries & Benefits costs within the Harbor Operating division.

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Relative to the Adopted Budget, Proposed Salaries and Benefits are projected to increase by \$17.1 million due to:

-  \$11.8 million in lower Salary & Benefits attrition savings largely driven by the increase in funding to potentially absorb City of Los Angeles employees facing layoffs;
-  \$7.6 million in Memorandum of Understanding (MOU) mandated increases to salaries, salary step increases, position upgrades, and the addition of seven new full-time positions;
-  \$2.6 million in higher pension and health care contributions;
-  \$0.6 million in higher bonuses and miscellaneous employee benefits pay;
-  \$0.2 million in higher overtime;

partially offset by:

-  \$1.9 million in higher direct Salaries & Benefits allocation to capital; and
-  \$3.8 million in lower funding for a prospective employee training program.

**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 relatively flat, increasing by 0.6% as compared to the Adopted Budget and 1.6% as compared to the Forecast because of increases in sponsorships, advertising, and publications/notices. The Proposed Budget includes \$2.0 million for the Community Sponsorship Program which is used to provide community grants.

**Travel** expenses of \$1.9 million are primarily allocated towards marketing efforts to retain and grow business and promote employee development. Within Travel, \$490,693 or 25.7%, is budgeted within the Executive Office and \$253,100, or 13.3%, 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 36.6% increase relative to the Forecast as customer outreach and development are pivotal during this period of changing trade policy.

**Outside Services** of \$64.6 million include an overall \$3.1 million increase relative to the Forecast as increases in maintenance for dredging, open facilities & land, and wharves; miscellaneous professional services; financial and audit services; waste collection; software/hardware maintenance; and real estate appraisals are partially offset by reductions in maintenance for equipment, buildings, streets, bridges, railroads, and grounds; hiring hall salaries and benefits; Information Technology (IT) systems consulting; environmental assessment services & site restoration; architectural & engineering design; legal services; and graphic design services.

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The largest components of proposed Outside Services are \$26.1 million, or 40.4%, for IT services (including information systems consulting, and maintenance for software & hardware); \$11.8 million, or 18.2%, for maintenance services (including buildings, wharves, equipment, dredging, grounds, open facilities & land, streets/bridges & railroads); \$7.2 million, or 11.1%, for environmental assessment services & site restoration; \$3.4 million or 5.3% for Hiring Hall Salaries & Benefits; and \$3.0 million, or 4.7%, for cruise terminal operations, among others as illustrated in the table below. Approximately \$2.0 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 2025/26	Proposed as a % of Total
IT Systems Consulting and Hardware/Software Maintenance	\$ 26,082	40.3%
Maintenance – Buildings; Wharves; Equipment; Dredging; Grounds; Open Facilities & Land; and Streets, Bridges & Railroads	11,754	18.2%
Environmental Assessment Services & Site Restoration	7,204	11.1%
Hiring Hall Salaries and Benefits	3,406	5.3%
Security Camera and other Security System Maintenance & Repair	3,100	4.8%
Cruise Terminal Operations	3,038	4.7%
Outside Legal Counsel	1,860	2.9%
Other	8,181	12.7%
<b>Total Outside Services</b>	<b>\$ 64,625</b>	<b>100.0%</b>

**Materials & Supplies** spending of \$9.5 million represents a \$87,202 or 0.9% increase compared to the Adopted Budget and a \$1.3 million or 15.7% increase compared to the Forecast. Materials and Supplies are primarily utilized by the C&M division for the ongoing maintenance requirements of land, property, infrastructure, and equipment.

**Rentals, Incentives, and Subsidies** of \$37.0 million represents a \$2.5 million or 6.4% reduction compared to the Adopted Budget and a similar \$2.4 million or 6.2% reduction compared to the Forecast.

The Proposed Budget includes \$18.5 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: \$9.1 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 Proposed Budget also includes \$3.0 million for the Cruise Incentive Program to encourage a greater number of cruise ship calls to the Port.

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The \$17.0 million appropriation for environmental initiatives includes \$9.0 million for zero emission trucks subsidies and infrastructure and technology investments, which are funded by the Clean Truck Fund Rate (CTFR); \$3.3 million for administration of the legacy Clean Truck Program and collection of the more recently implemented CTFR; and additional incentive payouts including: \$2.1 million for the Vessel Speed Reduction Program; \$1.7 million for the Technology Advancement Program; and \$0.9 million for the Environmental Shipping Index.

Additionally, \$1.5 million is appropriated for various leases and rentals for property, equipment, and vehicles.

**City Services** of \$72.7 million are for services rendered by other City departments for Port operations. The primary drivers of this budget category include \$43.8 million for Fire Department services, \$15.5 million for recreational facilities operated by the Department of Recreation and Parks (i.e. Cabrillo Marine Aquarium, parks, museums), and \$7.1 million for City Attorney services. Proposed expenses have increased by 6.1% as compared to the Adopted Budget and 12.0% as compared to the Forecast due to mandated MOU increases for Salaries and Benefits, the addition of new boat captains for the Fire Department, and increased levels of staffing for Recreation and Parks, which continues to normalize to pre-pandemic levels.

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

TABLE 11: COMPARISON OF PROPOSED BUDGET OTHER OPERATING EXPENSE, EXCLUDING OVERHEAD ALLOCATIONS TO THE FY 2024/25 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2024/25	Forecast FY 2024/25	Proposed Budget FY 2025/26	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Utilities	\$ 33,215	\$ 31,077	\$ 29,657	(10.7%)	(4.6%)
Insurance	6,648	6,285	7,133	7.3%	13.5%
Telephone	2,037	2,047	2,074	1.8%	1.3%
Litigation/Workers' Comp. Claims	5,276	6,590	2,000	(62.1%)	(69.7%)
Memberships, Books, & Subscriptions	1,400	1,348	1,264	(9.7%)	(6.2%)
Taxes, Assessments, & Fees	1,299	1,217	1,225	(5.7%)	0.6%
Other Operating Expenses	1,472	1,636	1,721	16.9%	5.2%
<b>Total Other Operating Expenses</b>	<b>\$ 51,346</b>	<b>\$50,200</b>	<b>\$ 45,074</b>	<b>(12.2%)</b>	<b>(10.2%)</b>

The \$29.7 million appropriation for Utilities represents 65.8% of total Other Operating Expenses within the Proposed Budget. Consisting primarily of \$25.2 million for electricity expenses, the overall proposed utility spending is budgeted to decrease by 4.6% in the coming year, compared to this year's Forecast. Proposed electricity expenses, consisting of \$20.8 million in Alternative Maritime Power (AMP™) related expenses, nearly all of which are reimbursed by customers, are expected to decrease in FY 2025/26, relative to the Forecast, due to lower forecasted cargo volumes and a lower number of ship calls.

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**Overhead Allocations to Capital** of \$24.6 million are indirect expenses that support the global Capital Improvement Program (CIP). Overhead allocations to capital represents a 21.0% 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.

Capital Budget

The Proposed Capital Budget of \$278.0 million is projected to decrease by 4.0% relative to the Adopted Budget, and to increase by 23.6% relative to the Forecast.

TABLE 12: COMPARISON OF PROPOSED CAPITAL BUDGET  
TO THE FY 2024/25 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted* Budget FY 2024/25	Forecast FY 2024/25	Proposed Budget FY 2025/26	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Capital Improvement Program:					
Terminal Improvements	\$ 52,247	\$ 53,491	\$ 83,806	60.4%	56.7%
Transportation Projects	49,545	43,515	52,974	6.9%	21.7%
Security Projects	6,406	8,422	4,546	(29.0%)	(46.0%)
Public Access / Env. Enhancements	52,405	38,877	23,168	(55.8%)	(40.4%)
Maritime Services	88,793	48,176	66,830	(24.7%)	38.7%
<b>Capital Improvement Program, Total</b>	<b>249,397</b>	<b>192,481</b>	<b>231,325</b>	<b>(7.2%)</b>	<b>20.2%</b>
Capitalized Expenditures	20,301	20,301	24,562	21.0%	21.0%
Land & Property Acquisition	-	-	-		
Equipment Purchases	20,105	12,306	22,238	10.6%	80.7%
<b>Total Capital Budget</b>	<b>\$ 289,803</b>	<b>\$ 225,088</b>	<b>\$ 278,125</b>	<b>(4.0%)</b>	<b>23.6%</b>

\*The FY 2024/25 Adopted Budget reflects a \$8.3 million transfer from the Capital Budget to the Operating Budget, which was approved by the Board in FY 2024/25, reducing the Capital Improvement Program from \$257.7 million to \$249.4 million.

**Capital Improvement Program (CIP)** - The \$231.3 million Proposed CIP Budget is 7.2% lower relative to the Adopted Budget and 20.2% higher relative to the Forecast.

In FY 2025/26, \$83.8 million, or 36.2% of the Proposed CIP, is budgeted for **Terminal Improvement** projects, with funding for these projects increasing by 60.4%, or approximately \$31.6 million, as compared to the Adopted Budget. At the Fenix Marine terminal, \$26.4 million has been budgeted for the construction of five new rail tracks and reuse of three existing rail tracks, to facilitate enhancement of cargo velocity. In compliance with Marine Oil Terminal Engineering Maintenance Standards (MOTEMS), which aim to protect public health and the environment, \$24.9 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 \$32.5 million in the upcoming fiscal year.

**Transportation** projects (roadway and rail improvements) are budgeted at \$53.0 million or 22.9% of the Proposed CIP Budget and include \$47.6 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

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complete modification of the current on and off ramps, will improve safety, access, and overall operations within the area. In addition, improvements continue at the Navy Way and Seaside Avenue Interchange with \$2.2 million budgeted for the project. An additional \$3.2 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 \$4.5 million, or 2.0% of the proposed budget for **Security** projects at the Port. The design, construction, and delivery of a Port Police Dive Boat is funded at \$2.0 million in FY 2025/26. Other security projects at the Port are budgeted for \$2.5 million in the upcoming fiscal year.

The budget for **Public Access/Environmental Enhancement** projects is \$23.2 million or 10.0% of the Proposed CIP Budget, with \$6.0 million for Public Access Investment Plan (PAIP) projects which includes \$3.5 million for PAIP projects at the Wilmington Waterfront including 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. An additional \$2.5 million is funded for PAIP projects at the San Pedro Waterfront including improvements at the 22<sup>nd</sup> Street Parking Lot, upgrades to the Cabrillo Marine Aquarium, and other miscellaneous projects. Additionally, other Public Access/Environmental Enhancement Projects at the Port are budgeted for \$17.2 million including \$8.6 million for the Zero Emission Port Electrification and Operations (ZEPEO) project, which will expand the Port's electric grid to support a fully zero-emission port complex.

**Maritime Services** of \$66.8 million for repairs and improvements to Harbor Department facilities and other Port locations amounts to 28.9% of the Proposed CIP Budget. At the Harbor Administration Building (HAB), \$11.5 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, concrete sloping for vehicle access, upgrades to the conference rooms, and the relocation of the existing mailroom from the second floor to the first floor. In the C&M Yard, design and construction of a workboat, barge, and crane has been allocated \$7.8 million. In addition, \$6.7 million has been set aside for CIP deferred maintenance projects at other Harbor Department facilities, and \$5.7 million has been allocated for the demolition and lot conversion of the former Starkist facility. Various projects at other Port locations are budgeted for a total of \$21.1 million, and an additional \$14.0 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 2025/26 CIP Budget, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2025/26 and provides estimated allocations for the subsequent four years along with total project costs. Over the five-year period extending from FY 2025/26

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to FY 2029/30, 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 Charter, only the FY 2025/26 portion of this plan is being brought before the Board for adoption.

**Capitalized Expenditures** of \$24.6 million include indirect overhead allocations that support the overall CIP.

**Capital Equipment Purchases** of \$22.2 million within the Proposed Budget for equipment such as vehicles, vessels, and IT hardware are expected to increase 10.6% relative to the Adopted Budget and by 80.7% compared to the Forecast.

**Non-Operating Expenses**

Budgeted at \$130.0 million, proposed Non-Operating Expenses are expected to be driven by \$116.0 million in Passthrough Grants; \$14.0 million in interest expenses and \$70,626 in other non-operating expenses. Proposed Non-Operating Expenses are expected to increase by 469.9% as compared to the Forecast primarily due to significantly higher Passthrough Grants for the Clean Ports Program, slightly offset by lower interest expense.

**Debt Service**

At \$50.0 million, Debt Service is expected to decrease by \$116.9 million, or 70.0%, in FY 2025/26 relative to the FY 2024/25 Forecast of \$166.9 million. The significant decrease in debt service payments will occur primarily due to the non-recurrence of a \$103.35 million defeasance which occurred in August 2024. The Port currently has \$297.6 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.

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Given that Proposed Total Operating Expenses are anticipated to increase by 6.4% relative to the Forecast, staff is recommending that \$8,731,465 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 \$8,731,465 transfer has been calculated as follows:

FY 2021 Operating Expenses – Audited	\$ 272,982,956
FY 2022 Operating Expenses – Audited	253,899,428
FY 2023 Operating Expenses – Audited & Restated	299,421,022
FY 2024 Operating Expenses – Audited	293,075,657
FY 2025 Operating Expenses – Adopted	416,622,727
<b>Equals: Five Years of Operating Expenses</b>	<b>\$ 1,536,001,790</b>
<b>Five Year Average Operating Expenses</b>	<b>\$ 307,200,358</b>
Less: Special Operating Fund Balance – Current	(241,766,650)
Less: Emergency/ACTA Fund Balance – Current	(56,702,243)
<b>Equals: Required Transfer</b>	<b>\$ 8,731,465</b>

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is the approval of the FY 2025/26 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, as appropriate. 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 2025/26 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department's operations and development in the next fiscal year. The \$2,705,630,103 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 2025/26 Proposed Annual Budget
2. Five-Year Capital Expenditure Plan

FIS Approval: JS (initials)

CA Approval: JC (initials)

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