

DATE: FEBRUARY 12, 2025

FROM: FINANCIAL PLANNING AND ANALYSIS

**SUBJECT: RESOLUTION NO. _____ - REQUEST FOR FY 2024/25
BUDGETARY TRANSFER FOR PASSTHROUGH GRANTS**

SUMMARY:

Staff requests approval of budgetary transfers in the amount of \$42,052,577 to cover anticipated budgetary shortfalls within the Non-Operating Expense Budget Category for passthrough grants. This budgetary transfer is needed to establish passthrough grant budgets to distribute subrecipient payments in Fiscal Year (FY) 2024/25 for grant awards associated with: 1) Resolution 25-10486 for the Sustainable Equipment Adoption: Community, Harbor, and Neighborhood Growth & Empowerment (SEA-CHANGE) Project, funded through the United States Environmental Protection Agency (EPA); and 2) Resolution 25-10485 for the Los Angeles Marine Emission Reduction (LA MER) Project, funded through the California Air Resources Board (CARB).

The Unappropriated Balance will be utilized for these budgetary transfers, and this proposed transfer will increase the overall FY 2024/25 Non-Operating Expense Budget from \$32,179,692 to \$74,232,269. Staff anticipates that in FY 2024/25 subrecipients will submit approximately \$32.7 million in invoices for reimbursement for the SEA-CHANGE Project, and approximately \$9.3 million in invoices for the LA MER Project, or approximately \$42 million in total for both projects. Payments to grant subrecipients utilizing Non-Operating Expenses for passthrough grants are the financial responsibility of the City of Los Angeles Harbor Department (Harbor Department); however, payments will not proceed until after the Harbor Department has first received the associated passthrough grant funding from the awarding agencies (CARB and EPA) in accordance with the grant agreements.

RECOMMENDATION:

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

1. Find that the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;

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2. Approve the following budgetary transfers to resolve a projected shortfall in the federal and state/local passthrough grant non-operating expense accounts:
 - a. Transfer \$42,052,577 from the Unappropriated Balance, Fund 702:
 - i. \$32,726,662 to Fund 702, Division 00000, Account 702000, and
 - ii. \$9,325,915 to Fund 702, Division 00000, Account 702005;
3. Direct the Board Secretary to transmit the Resolution to the Mayor for approval pursuant to Section 343(b) of the City Charter;
4. Direct the Board Secretary to notify the City Clerk of such transfer pursuant to Section 343(d) of the City Charter at the time such transfer is made; and
5. Adopt Resolution No. _____.

DISCUSSION:

Background/Context – The Harbor Department’s Annual Expenditure Budget includes four primary budget categories: 1) Operating Expense, which is grouped into eight expense subcategories; 2) Non-Operating Expense, which includes passthrough grant expenses; 3) Capital Budget, which includes the Capital Improvement Program (CIP); and 4) Unappropriated Balance (UB), which represents all departmental funds that have not been appropriated for specific uses. The UB can be utilized to transfer funds to other budget categories to meet needs that were unanticipated during budget development or that were insufficiently defined to allow for a more specific appropriation.

Board approval is required for the transfer of funds from one budget category to another as stated in Charter Section 343(b): “The general manager of any department having control of its own funds may make application in writing to the board having control and management over the department for a transfer of amounts from one budget item to another in the annual budget of the department, or to a new item created after adoption of the annual budget. Upon board approval, the Controller shall make the transfer, but no transfer of an amount exceeding thirty-five thousand dollars (\$35,000) or other amount established by ordinance shall be made unless approved in writing by the Mayor.” Approval from the Mayor is also required as the transfers requested in this resolution exceed the limits set by Charter Section 343(b) and the amount established by ordinance (Los Angeles Administrative Code Section 5.36).

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Reimbursement Requests and Required Transfers – Staff anticipates that in FY 2024/25 subrecipients will submit approximately \$32.7 million in invoices for reimbursement for the SEA-CHANGE Project, and approximately \$9.3 million in invoices for the LA MER Project, or approximately \$42 million in total for both projects.

The proposed transfer request will transfer approximately \$42 million in funding from the UB to the Non-Operating Expense budget category to fund subrecipient payments associated with the two grant-funded projects as detailed below:

Transfer of \$32,726,662 for the SEA-CHANGE Project funded by EPA – On January 16, 2025, the Board approved Grant Agreement No. 25-10083 (SEA-CHANGE Grant Agreement) with the EPA via Resolution 25-10486 in the amount of \$411,688,296. One component of the SEA-CHANGE Grant Agreement requires tenant subrecipients to deploy 424 battery-electric, human-operated, ZE types of equipment and install related infrastructure. Under this provision, these tenant subrecipients would purchase equipment and submit invoices to the Harbor Department. Harbor Department staff would then verify and validate these invoices and, in turn, submit these invoices to the EPA for reimbursement. Once these invoices are approved by the EPA, the EPA will release associated funds to the Harbor Department, and the Harbor Department would then pass these funds back to the tenant subrecipients.

In accordance with the City Charter, funding receipts from the EPA are budgeted within Non-Operating Revenues while the associated disbursement of these receipts to tenant subrecipients are budgeted within Non-Operating Expenses. Therefore, funding is required to be appropriated within Account 702000 (Fed Pass-Through Grant Expense) in support of disbursements under the SEA-CHANGE Grant Agreement. In FY 2024/25, staff anticipates making \$32,726,662 in tenant subrecipient disbursements under the SEA-CHANGE Grant Agreement. Although this amount of disbursements will be fully offset by a like amount of receipts from the EPA, a transfer in the amount of \$32,726,662 from the Unappropriated Balance is required at this time to cover the FY 2024/25 tenant disbursements because funding awarded under the SEA-CHANGE Grant Agreement was not known at the time the FY 2024/25 Adopted Budget was approved. Future fiscal year funding will be requested to be budgeted as part of the annual budgeting process, subject to Board approval.

Transfer of \$9,325,915 for the LA MER Project funded by CARB \$9,325,915 – On January 16, 2025, the Board also approved Grant Agreement No. 25-10082 (LA MER Grant Agreement) with CARB to fund the LA MER Project via Resolution 25-10485 in the amount of \$30,980,376. One component of the LA MER Grant Agreement requires tenant subrecipients to deploy a passenger ferry with a Tier 4 engine potentially including a diesel particulate filter as well as deploy two zero-emission capable excursion boats.

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Under this provision, these tenant subrecipients would purchase the compliant vessels and submit invoices to the Harbor Department. Harbor Department staff would then verify and validate these invoices and, in turn, submit these invoices to CARB for reimbursement. Once these invoices are approved by CARB, CARB will then release associated funds to the Harbor Department, and the Harbor Department would then pass these funds back to the tenant subrecipients.

In accordance with the City Charter, funding receipts from CARB are budgeted within Non-Operating Revenues while the associated disbursement of these receipts to tenant subrecipients are budgeted within Non-Operating Expenses. Therefore, funding is required to be appropriated within Account 702005 (State Pass-Through Grant Expense) in support of disbursements under the LA MER Grant Agreement. In FY 2024/25, staff anticipates making \$9,325,915 in tenant subrecipient disbursements under the SEA-CHANGE Grant Agreement. Although this amount of disbursements will be fully offset by a like amount of receipts from CARB, a transfer in the amount of \$9,325,915 from the Unappropriated Balance is required at this time to cover the FY 2024/25 tenant disbursements because funding awarded under the LA MER Grant Agreement was not known at the time the FY 2024/25 Adopted Budget was approved. Future fiscal year funding will be requested to be budgeted as part of the annual budgeting process, subject to Board approval.

Passthrough Grant Processing – Passthrough grants are funding awarded by a federal or state agency to an intermediary organization, such as the Harbor Department, for distribution to subrecipients. These funds “passthrough” an intermediary organization to ensure that funds are used properly, and reporting requirements are met. The Harbor Department will serve as the administrator for the passthrough grant portions of both the EPA and CARB grant awards for the SEA-CHANGE and LA MER Projects.

Authorized and contracted subrecipients will submit documentation verifying project milestone completion, along with invoices detailing overall expenditures, to the Harbor Department. Upon receipt, the Harbor Department will review and verify the compliance with the Subrecipient Agreement associated with the submissions before forwarding them to the awarding agency (EPA or CARB) with a request for grant payments. Once the awarding agency reviews and approves the submission from the Harbor Department, it will issue grant payments directly to the Harbor Department. These receipts will be recorded as passthrough grant revenue. Subsequently, the Harbor Department will distribute payments to subrecipients as reimbursement for completed work. These payments will be recorded as passthrough grant expenditures.

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To facilitate this process, the Harbor Department must establish passthrough grant appropriation budgets within the Non-Operating Expenses Budget category to ensure timely payments to subrecipients.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of budgetary transfers to cover anticipated budgetary shortfalls, which is an administrative activity. Individual projects implemented with the use of funding will be subject to separate environmental review by the lead agency with jurisdiction over the project. 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 proposed \$42,052,577 transfer would increase the Adopted FY 2024/25 Non-Operating Expense Budget from \$32,179,692 to \$74,232,269 and reduce the Adjusted FY 2024/25 Unappropriated Balance from \$1,331,672,363 to \$1,289,619,786.

While subrecipient payments associated with the SEA-CHANGE and LA MER Projects are the responsibility of the Harbor Department, funds will first be received from the awarding agencies (EPA and CARB) and deposited by the Harbor Department before they are subsequently distributed to the grant subrecipients. More specifically, the Harbor Department will not be obligated to reimburse subrecipients until payment has been authorized, approved, and funds are released from the awarding agency to the Harbor Department.

The overall effect on the Port's income resulting from passthrough grant transactions is \$0, as the passthrough grant amounts are recorded equally as passthrough grant revenue and passthrough grant expense within the Non-Operating portion of the Harbor Department's Income Statement. Therefore, while the Harbor Department expects to record approximately \$42 million in non-operating expenses associated with these projects, it will also record approximately \$42 million in non-operating revenue.

Account	Adopted FY 2024/25	Plus (Less): Transfers	Adjusted FY 2024/25
702000 - Fed Pass-Through Grant Expense	\$ 5,000	\$32,726,662	\$32,731,662
702005 - State Pass-Through Grant Expense	-	\$ 9,325,915	\$ 9,325,915
Unappropriated Balance*	\$1,331,672,363	\$(42,052,577)	\$1,289,619,786

*The Unappropriated Balance includes a reduction of \$4,650,000 from the adopted amount to account for a transfer that was approved via Resolution 24-10444.

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CITY ATTORNEY:

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

TRANSMITTALS:

1. Resolution 25-10486 – Grant Agreement with the U.S. Environmental Protection Agency for Clean Ports Program and Subrecipient Agreements
2. Resolution 25-10485 – Grant Acceptance and Approval of the Los Angeles Marine Emission Reduction Project Grant Agreement with the California Air Resources Board.

FIS Approval: JS
CA Approval: JC

Jeffrey Strafford

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