



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

DATE: MAY 24, 2021

FROM: FINANCIAL PLANNING & ANALYSIS

**SUBJECT: RESOLUTION NO. _____ - ADOPTION OF
PROPOSED FISCAL YEAR 2021/22 ANNUAL BUDGET**

SUMMARY:

Staff requests approval of the Fiscal Year (FY) 2021/22 Proposed Annual Budget (Proposed Budget) of \$1,710,172,185. 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

Sources:		Appropriations:	
Operating Receipts	\$ 533,270,201	Operating Expenses	\$ 300,071,525
Non-Operating Receipts	72,724,637	Non-Operating Expenses	111,278,954
Grant Receipts (Capital)	26,214,335	Capital Budget	214,350,079
Debt Issuance Proceeds	37,717,383	Debt Repayments	88,335,000
		Accrual Adjustments	(36,196,179)
Available Cash:		Projected Year-End Balances:	
Unrestricted Funds	973,424,302	Unappropriated Balance	965,753,443
Restricted Funds	66,821,327	Restricted Cash	66,579,363
Total Sources	\$1,710,172,185	Total Appropriations	\$1,710,172,185

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

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Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines;

2. Adopt the Fiscal Year 2021/22 Proposed Annual Budget for the City of Los Angeles Harbor Department and appropriate funds in accordance herewith;
3. Authorize the Executive Director, or his designee, to make any technical adjustments consistent with the Board action(s) to the Fiscal Year 2021/22 Proposed Annual Budget documents in the implementation of this budget; and
4. Adopt Resolution No. _____.

DISCUSSION:**Financial Performance Goals**

Projected financial performance for FY 2021/22 relative to the current year is summarized below:

TABLE 2: KEY BUDGET COMPONENTS

	FY 2020/21 Adopted Budget	FY 2020/21 Forecast	FY 2021/22 Proposed Budget	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Cargo Volumes (TEUs)	7.93M	10.40M	9.70M	22.3%	(6.7%)
Operating Revenues	\$460.1M	\$545.0M	\$533.3M	15.9%	(2.2%)
Operating Expenses	\$285.0M	\$284.9M	\$300.1M	5.3%	5.3%
Income before Depreciation	\$175.1M	\$260.1M	\$233.2M	33.2%	(10.3%)
Net Income	(\$12.0M)	\$74.3M	\$33.1M	n/m	(55.5%)
Capital Improvement Program	\$160.3M	\$132.4M	\$188.7M	17.7%	42.5%

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 2021/22
Debt Rating	AA	AA
Debt Service Coverage Ratio	2.0x	3.9x
Operating Margin	45.0%	43.7%

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

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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 2020, and divisions submitted their proposed budgets in late November 2020. After holding internal discussions with senior management in January and February 2021, Harbor Department staff presented an initial look at the Proposed Budget to the Board in April 2021.

In late March 2021, 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 2021 presentation of the Proposed Budget to the Board, FY 2021/22 Proposed Operating Revenues increased by \$16.2 million. This increase occurred as a result of: (i) a tenant exercising an option to extend its lease beyond December 2021; (ii) the continued successful conversion of temporary space assignments to longer-term entitlements; (iii) the application of higher space assignment rates to remaining space assignment arrangements; and (iv) a 100,000 TEU increase in assumed cargo volumes due to lingering congestion which is anticipated to continue into early FY 2021/22.

In addition, subsequent adjustments and changes were made to the FY 2021/22 proposed Operating Expenses, with total overall reductions of \$0.2 million outlined below:

TABLE 4: SUMMARY OF CHANGES TO PROPOSED TOTAL OPERATING EXPENSES FOLLOWING APRIL 2021 BOARD MEETING

Proposed Total Operating Expenses, April 2021	\$ 300,256,274
Additions / (Reductions):	
AQMD – Kickstart Program	\$1,000,000
Insurance	957,485
Human Resources & Payroll (HRP) System Training	63,100
City Services - LACERS - Separation Incentive Program (SIP) Processing	50,000
Port Police Materials & Supplies	(83,584)
Salaries & Benefits Changes (Including SIP Payouts and Savings)	(2,171,750)
Proposed Total Operating Expenses, June 2021	\$ 300,071,525

Upon adoption by the Board, the annual budget will cover the Harbor Department's fiscal year from July 1, 2021 through June 30, 2022.

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Sources of Funds for Proposed Budget

Sources of funds for the Proposed Budget are expected to increase relative to the FY 2020/21 Adopted Budget (Adopted Budget), primarily due to higher Unrestricted Funds, Operating Receipts, and Proceeds from Debt Issuance.

**TABLE 5: COMPARISON OF PROPOSED BUDGET SOURCES OF FUNDS
TO THE FY 2020/21 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2020/21	Forecast FY 2020/21	Proposed Budget FY 2021/22	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Receipts	\$ 460,090	\$ 545,001	\$ 533,270	15.9%	(2.2%)
Non-Operating Receipts	76,880	25,360	72,725	(5.4%)	186.8%
Grant Receipts (Capital)	16,228	6,878	26,214	61.5%	281.1%
Debt Issuance Proceeds	-	-	37,717		
Unrestricted Funds	881,951	928,706	973,424	10.4%	4.8%
Restricted Funds	64,010	65,520	66,821	4.4%	2.0%
Total Sources	\$ 1,499,160	\$ 1,571,465	\$ 1,710,172	14.1%	8.8%

Operating Receipts

Comprising 31.2% of 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 proposed Operating Receipts, as well as a comparison to the Adopted Budget and FY 2020/21 Estimate Forecast (Forecast).

**TABLE 6: COMPARISON OF PROPOSED BUDGET OPERATING RECEIPTS
TO THE FY 2020/21 ADOPTED BUDGET AND FORECAST**

(\$ in Thousands)	Adopted Budget FY 2020/21	Forecast FY 2020/21	Proposed Budget FY 2021/22	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Shipping Services	\$ 367,781	\$ 447,277	\$ 428,982	16.6%	(4.1%)
Rentals	71,966	77,839	84,646	17.6%	8.7%
Royalties and Fees	3,459	1,364	1,825	(47.2%)	33.8%
Clean Truck Fees	2,075	1,950	1,950	(6.0%)	-
Other Operating	14,809	16,571	15,868	7.2%	(4.2%)
Total Operating Receipts	\$ 460,090	\$ 545,001	\$ 533,271	15.9%	(2.2%)
Cargo Volumes (TEUs in Thousands)	7,934	10,400	9,700	22.3%	(6.7%)

During FY 2020/21 cargo volumes are projected to increase by 21.5% relative to the prior year FY 2019/20 Actuals and 31.1% relative to the Adopted Budget. Looking forward to FY 2021/22, cargo volumes are expected to increase by 22.3% relative to the Adopted Budget, but decline by 6.7% relative to the Forecast.

Operating Receipts will continue to be driven by cargo-related activities as Shipping Services Revenue is anticipated to comprise approximately 80.4% of the \$533.3 million in projected total Operating Receipts. The increase in total Operating Receipts as

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compared to the Adopted Budget primarily results from higher anticipated revenue from Shipping Services due to higher overall TEUs, higher Rentals and slightly higher Other Operating Revenues, which are expected to be only partially offset by declines in Royalties & Fees as well as Clean Truck Fees.

Non-Operating Receipts

Proposed Non-Operating Receipts of \$72.7 million include \$51.9 million in grants (the majority of which are pass-through grants), \$18.9 million in investment and interest income, and \$1.9 million in fees and other non-operating revenues. The California Air Resources Board and California Energy Commission are providing the majority of the pass-through grant funding for various demonstration projects aimed towards the reduction of harmful air emissions. Proposed Non-Operating Receipts are anticipated to increase relative to the Forecast primarily due to higher pass-through grant receipts; however, relative to the Adopted Budget, Proposed pass-through grant receipts are \$5.2 million lower.

Capital Grant Receipts

Anticipated to comprise \$26.2 million of the Proposed Budget, Capital Grant Receipts are expected to increase by \$10.0 million relative to the Adopted Budget. Major projects receiving capital grant funding in FY 2021/22 include the Terminal Island Railyard Enhancement Project, the Alameda Corridor Southern Terminus Gap Closure, the SR-47/Vincent Thomas Bridge/Front Street Connector Project, the Urban Areas Security Initiative, and the Everport Terminal Berth Efficiency and Emission Reduction Project.

Available Cash-on-Hand

The Proposed Budget includes Restricted Funds and Unrestricted Funds, which comprise 3.9% and 56.9% 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, agreements, or legislation. The Proposed Budget includes Restricted Funds totaling \$66.8 million for purposes such as debt service reserves, mitigation projects related to the China Shipping Mitigation Fund, 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 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 2021/22, 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 \$973.4 million in unrestricted cash which, based upon proposed Operating Expenses of \$300.1 million, would be sufficient to meet one of the criteria necessary to maintain the Port's current "AA" debt rating.

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Proposed Budget Appropriations

Proposed Budget Appropriations are expected to increase by 14.1% relative to the Adopted Budget, due primarily to an increase in the Unappropriated Balance.

TABLE 7: COMPARISON OF PROPOSED BUDGET APPROPRIATIONS
TO THE FY 2020/21 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2020/21	Forecast FY 2020/21	Proposed Budget FY 2021/22	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Operating Expenses	\$ 285,010	\$ 284,905	\$ 300,072	5.3%	5.3%
Capital Budget	186,885	158,313	214,350	14.7%	35.4%
Non-Operating Expenses	96,434	43,044	111,279	15.4%	158.5%
Debt Repayments and Accruals	32,689	44,957	52,139	59.5%	16.0%
Unappropriated Balance (UB)	833,716	973,424	965,753	15.8%	(0.8%)
Restricted Cash	64,427	66,821	66,579	3.3%	(0.4%)
Total Appropriations	\$ 1,499,160	\$ 1,571,465	\$ 1,710,172	14.1%	8.8%

Operating Expenses

The FY 2021/22 Proposed Budget includes total Operating Expenses of \$300.1 million, which represents a 5.3% increase relative to both the Adopted Budget and 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 Other Operating Expenses, City Services, and Outside Services (see Table 11 for more details regarding Other Operating Expenses).

TABLE 8: COMPARISON OF PROPOSED BUDGET OPERATING EXPENSES
TO THE FY 2020/21 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2020/21*	Forecast FY 2020/21	Proposed Budget FY 2021/22	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Salaries & Benefits	\$ 157,783	\$ 157,783	\$ 157,755	0.0%	0.0%
Marketing & Public Relations	2,442	2,434	2,858	17.0%	17.4%
Travel	301	273	929	209.0%	240.5%
Outside Services	35,259	35,230	37,025	5.0%	5.1%
Materials & Supplies	6,397	6,352	6,674	4.3%	5.1%
City Services	56,960	56,959	61,210	7.5%	7.5%
Allocations to Capital	(18,296)	(18,296)	(19,491)	6.5%	6.5%
Other Operating Expenses	44,165	44,170	53,112	20.3%	20.2%
Total Operating Expenses	\$ 285,010	\$ 284,905	\$ 300,072	5.3%	5.3%

*The Adopted Budget includes a \$3.8 million transfer to Other Operating Expenses from the Unappropriated Balance, a \$3.3 million transfer across the various operating expense budget categories, and a \$3.4 million transfer from the Capital Budget to the Operating Expense Budget, approved by the Board in FY 2020/21. This resulted in a net increase of \$7.2 million as compared to the initially adopted budget in July 2021 of \$277.8 million.

Salaries & Benefits of \$157.8 million (net of \$15.9 million in capitalization) have been included within the Proposed Budget in order to support 999 authorized positions. With the Harbor Department's historical vacancy rate at 8.5%, the FY 2021/22 Proposed Budget for Salaries and Benefits includes funding for an average of 915 positions. This budget also incorporates the Separation Incentive Program (SIP) payouts of \$5.4 million and SIP Salaries & Benefits Savings estimated at \$6.1 million for the 80 employees who

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have opted to retire under this program. The SIP Salaries & Benefits Savings is based on employees retiring in August, September, and December 2021, and ensuring that half of the 80 SIP positions are held vacant for the remainder of the fiscal year. Assuming that these same positions are held vacant in FY 2022/23, the savings from the SIP in the subsequent year is estimated at \$6.3 million.









Note: The \$15.9 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, \$173.6 MILLION)

(\$ in Thousands)	Authorized Positions	Proposed Budget FY 2021/22	Proposed Salaries & Benefits as a % of Total
Port Police	227	\$ 40,200	25.0%
Construction and Maintenance	291	36,491	22.7%
Port Pilots	33	12,967	8.1%
Engineering	91	12,464	7.8%
Cargo Marketing, Planning, & Real Estate Divisions	61	10,107	6.3%
Finance	60	8,819	5.5%
Construction	69	8,504	5.3%
Information Technology	44	8,283	5.2%
Human Resources & Contracts and Purchasing	37	6,172	3.8%
Stakeholder Engagement Bureau	35	5,914	3.7%
Executive & Commission	20	5,300	3.3%
Environmental Management	28	4,705	2.9%
Goods Movement	3	709	0.4%
Total	999	\$ 160,634	100.0%

*The total Proposed Budget for FY 2021/22 of \$160,634 in this table does not match the net Salaries & Benefits budget of \$157.8 million because the following expenses are excluded from the table: training for the Maintenance Improvement Program and City Attorney divisions, and global SIP savings within the Special Projects division.

Relative to the Adopted Budget, Proposed Salaries and Benefits are projected to decrease by \$27,434 due to:

-  \$5.3 million for SIP Payout (approximately \$67,900 per participating employee);
-  \$3.4 million in higher pension and health care contributions;
-  \$0.7 million in Memorandum of Understanding (MOU) mandated increases to salaries, salary step increases, and position upgrades;
-  \$0.6 million in higher bonuses and miscellaneous employee benefits pay; and
-  \$0.3 million in a reduced true-up/refund for retirement plan payments; partially offset by:
 -  \$6.6 million in higher Salary & Benefits Attrition Savings (\$6.1 million for SIP)
 -  \$2.4 million in higher direct Salaries and Benefits allocations to capital; and
 -  \$1.3 million in reduced Overtime.

Marketing & Public Relations expenses of \$2.9 million include Port-wide marketing activities such as customer and community outreach, and sponsorships. Proposed expenses in this category are increasing by 17.0% relative to the Adopted Budget and

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17.4% relative to the Forecast. Increases are in advertising and business/community promotional expenses.

Travel expenses of \$0.9 million are primarily allocated towards marketing efforts to retain and grow business, and promote employee development. Of the \$928,570 in proposed domestic, foreign, and local travel expenses, \$255,500 or 27.5% is budgeted within the Executive Office and \$192,500 or 20.7% 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 240.5% increase relative to the Forecast as travel is expected to resume as COVID-19 restrictions are lifted in FY 2021/22.

Outside Services of \$37.0 million include an overall \$1.8 million increase relative to the Forecast as increases in miscellaneous professional services, computer maintenance services for software, and legal fees/services are partially offset by decreases to information systems consulting services and maintenance services.

The largest components of proposed Outside Services are \$9.8 million or 26.4% for IT services (including information systems consulting, and maintenance for software & hardware), \$7.8 million or 21.1% for maintenance services (including buildings; wharves; equipment; dredging; grounds; open facilities & land; and streets, bridges & railroads); and \$5.6 million or 15.2% for environmental assessment and services, among others as illustrated in the table below. Approximately \$1.9 million in grant reimbursements are expected to be applied against \$2.6 million in Port security system maintenance service costs.

TABLE 10: PROPOSED OUTSIDE SERVICES

(\$ in Thousands)	Proposed Budget FY 2021/22	Proposed as a % of total
IT Systems Consulting and Hardware/Software Maintenance	\$ 9,769	26.4%
Maintenance - Building, Wharves, Equipment, Dredging, Grounds, Open Facilities and Land, and Streets, Bridges & Railroads	7,824	21.1%
Environmental Assessment Services & Site Restoration	5,627	15.2%
Cruise Terminal Operations	2,957	8.0%
Security Camera and other Security System Maintenance & Repair	2,600	7.0%
Hiring Hall Salaries and Benefits	1,519	4.1%
Outside Counsel	1,578	4.3%
Other	5,151	13.9%
Total Outside Services	\$ 37,025	100.0%

Materials & Supplies spending of \$6.7 million represents a \$277,279 increase compared to the Adopted Budget and a \$322,081 increase compared to the Forecast. Increased spending for parts & materials and tools & equipment, which is partially offset by decreases in operating materials & supplies and office equipment, drives the year-to-year increases relative to both the Adopted Budget and Forecast.

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City Services of \$61.2 million are for services rendered by other City departments for Port operations. The primary drivers of this budget category include \$38.4 million for Fire Department services, \$12.1 million for recreational facilities operated by the Department of Recreation and Parks (i.e. Cabrillo Marine Aquarium, parks, museums), and \$6.1 million for City Attorney services. Proposed expenses are 7.5% higher compared to both the Adopted Budget and Forecast due to mandated MOU increases for Salaries and Benefits for Los Angeles Fire Department employees serving the Port, as well as increases for periodic fireboat maintenance.

Overhead Allocations to Capital of \$19.5 million are indirect expenses that support the global Capital Improvement Program (CIP). Overhead allocations to capital are expected to increase by \$1.2 million relative to both the Adopted Budget and Forecast as CIP spending will be increasing in the coming year. 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 2020/21 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2020/21	Forecast FY 2020/21	Proposed Budget FY 2021/22	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Utilities	\$ 22,240	\$ 23,343	\$ 20,138	(9.5%)	(13.7%)
Customer Incentives	6,100	5,072	13,305	118.1%	162.3%
Environmental Initiatives	4,473	4,380	6,009	34.3%	37.2%
Insurance	3,048	3,216	4,010	31.6%	24.7%
Litigation/Workers' Comp Claims	2,250	2,350	2,750	22.2%	17.0%
Telephone	1,845	1,842	1,807	(2.0%)	(1.9%)
Taxes & Assessments	1,007	995	1,551	54.0%	55.9%
Other Operating Expenses	3,202	2,971	3,541	10.6%	19.2%
Total Other Operating Expenses	\$ 44,165	\$ 44,170	\$ 53,112	20.3%	20.2%

The \$20.1 million appropriation for Utilities represents 37.9% of total Other Operating Expenses within the Proposed Budget. Consisting primarily of \$17.8 million for electricity expenses, the overall proposed utility spending is budgeted to decrease by 13.7% in the coming year, compared to this year's Forecast. Proposed electricity expenses consisting of \$13.7 million in Alternative Maritime Power (AMP™) related expenses, nearly all of which are reimbursed by customers, are expected to decline in FY 2021/22 due to lower forecasted cargo volumes and reduced cargo congestion.

The Proposed Budget also includes \$13.3 million for container, shipping, and cruise incentive programs to drive business to the Port and to improve efficiency. The Port has budgeted \$4.0 million each for the Ocean Common Carrier (OCC), the Truck Turn-Time, and Dual Transaction Incentive Programs and \$0.6 million 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

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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 operator to increase the number of dual transactions at their terminal. The FY 2021/22 Proposed Budget also includes \$0.7 million for the Cruise Incentive Program to encourage a greater number of cruise ship calls to the Port.

The \$6.0 million appropriation for environmental initiatives includes \$2.0 million in incentive payouts for the Vessel Speed Reduction Program, \$1.3 million for administrative costs for the Clean Truck Program, \$1.0 million for the Port's contribution to the AQMD – Kickstart Program, \$0.9 million for incentive payouts for the Technology Advancement Program, \$0.5 million for incentive payouts related to the Environmental Shipping Index, and \$0.3 million for the Port's contribution to the California Energy Commission grant-funded Wireless Advanced Vehicle Electrification (WAVE) Chargers.

Capital Budget

The Proposed Capital Budget of \$214.4 million is projected to be 14.7% higher relative to the Adopted Budget and 35.4% higher relative to the Forecast. Relative to both the Adopted Budget and Forecast, CIP Spending within the Proposed Budget has increased for all categories within the Capital Improvement Program except for Security Projects for which there is a decrease as compared to the Adopted Budget.

TABLE 12: COMPARISON OF PROPOSED CAPITAL BUDGET
TO THE FY 2020/21 ADOPTED BUDGET AND FORECAST

(\$ in Thousands)	Adopted Budget FY 2020/21	Forecast FY 2020/21	Proposed Budget FY 2021/22	Δ% Proposed Budget to Adopted	Δ% Proposed Budget to Forecast
Capital Improvement Program:					
Terminal Improvements	\$ 60,947	\$ 46,602	\$ 64,695	6.2%	38.8%
Transportation Projects	7,290	5,608	16,260	123.0%	189.9%
Security Projects	7,797	4,533	6,149	(21.1%)	35.6%
Public Access / Env. Enhancements	54,277	55,870	64,068	18.0%	14.7%
Maritime Services	29,942	19,763	37,521	25.3%	89.9%
*Capital Improvement Program, Total	160,253	132,377	188,693	17.7%	42.5%
Capitalized Expenditures					
Land & Property Acquisition	-	-	-		
Equipment Purchases	8,336	7,641	6,166	(26.0%)	(19.3%)
Total Capital Budget	\$ 186,885	\$ 158,313	\$ 214,350	14.7%	35.4%

*The Adopted Budget includes a \$3.4M transfer to the Operating Expense Budget, approved by the Board in FY 2020/21.

Capital Improvement Program (CIP) - The \$188.7 million Proposed CIP Budget is 17.7% higher relative to the Adopted Budget and 42.5% higher relative to the Forecast.

In FY 2021/22, \$64.7 million, or 34.3% of the Proposed CIP, is budgeted for Terminal Improvement projects with funding for these projects increasing by 6.2% or \$3.8 million as compared to the Adopted Budget. Proposed funds for Terminal Improvements include

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\$32.3 million for repairs and upgrades at two liquid bulk facilities for compliance with Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS); \$13.0 million for wharf and backland improvements at the Everport Container Terminal; \$7.2 million for corridor storage track expansion at the APM Terminal; \$5.1 million for wharf restoration and enhancements at the Pasha Terminal; and \$7.1 million for other terminal improvements throughout the Port.

The budget for Public Access/Environmental Enhancement projects is \$64.1 million or 34.0% of the FY 2021/22 Proposed CIP Budget, which includes \$46.6 million for the continued development of the Wilmington Waterfront, \$45.2 million of which is for the construction of the Wilmington Waterfront Promenade, and \$1.4 million for the design of the pedestrian bridge along Avalon Boulevard and other improvements. An additional \$9.2 million is budgeted for the construction of the San Pedro Public Market Promenade & Town Square and other improvements along the San Pedro waterfront. A proposed budget of \$7.4 million is allocated for environmental enhancement projects including the advanced electrical infrastructure demonstration and retrofitting earth switchgears. Additionally, \$0.9 million has been budgeted for the Front Street Beautification project for the construction of a multi-use path adjacent to the China Shipping Terminal.

Included in the FY 2021/22 Proposed CIP Budget is \$37.5 million for Maritime Services for repairs and improvements to Harbor Department facilities and other Port locations. A total of \$15.1 million has been allocated for projects at Harbor Department Facilities, and \$10.4 million has been budgeted for other miscellaneous Maritime Service projects such as continued work on multiple CIP deferred maintenance projects, and the upkeep of public sidewalks and appurtenances. An additional \$12.0 million has been set aside for unanticipated projects.

Transportation projects (roadway and rail improvements) are budgeted at \$16.3 million or 8.6% of the Proposed CIP Budget and include \$13.6 million for the Alameda Corridor Southern Terminus Gap Closure; \$1.0 million to reconfigure the on and off ramps at State Route 47/Vincent Thomas Bridge and Front Street/Harbor Boulevard for improved traffic flow; and \$1.7 million for a variety of other projects throughout the Harbor District to promote the faster, safer, and more efficient movement of trade goods.

In addition, the Proposed CIP Budget includes \$6.1 million for Security projects at the Port, which is decreasing 21.1% in comparison to the Adopted Budget. These projects include \$3.2 million for the Port Cyber Resilience Center, \$2.5 million to implement an upgraded radio system for Port Police, and \$0.4 million for other security projects.

In conjunction with the Proposed FY 2021/22 CIP Budget, a five-year capital expenditure plan has been developed (Transmittal 2), which incorporates the proposed budget allocation for FY 2021/22 and provides estimated allocations for the subsequent four years along with total project costs. Over the five-year period extending from FY 2021/22 to FY 2025/26, the Harbor Department expects to spend approximately \$659.9 million 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

SUBJECT: ADOPTION OF PROPOSED FISCAL YEAR 2021/22 BUDGET

Harbor Department prepares its budget on an annual basis in conformance with the City Charter, only the FY 2021/22 portion of this plan is being brought before the Board for adoption.

Capitalized Expenditures of \$19.5 million include indirect overhead allocations that support the entire, global CIP.

Capital Equipment Purchases of \$6.2 million within the Proposed Budget for equipment such as vehicles, vessels, and IT hardware are expected to decrease by 26.0% relative to the Adopted Budget and by 19.3% compared to the Forecast.

Non-Operating Expenses

Budgeted at \$111.3 million, proposed Non-Operating Expenses are expected to be driven by \$50.0 million in state grant pass-through expenses; \$33.2 million in interest expenses, which can no longer be capitalized due to a change in accounting standards; \$27.0 million in costs for cancelled capital projects; \$1.0 million in bond and commercial paper issuance costs; and \$110,000 in other non-operating expenses. Proposed Non-Operating Expenses are expected to be higher relative to the Forecast due primarily to increased expenses for state pass-through grants and cancelled capital projects.

Debt Service

At \$78.6 million, Debt Service is decreasing by 6.3% in FY 2020/21 relative to the Forecast. The Port currently has \$665.7 million in outstanding senior lien fixed rate debt which is AA rated.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the FY 2021/22 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 2021/22 Proposed Annual Budget will appropriate the necessary funds for the Harbor Department's operations and development in the next fiscal year. The \$1,710,172,185 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 2021/22 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 2021/22 Proposed Annual Budget
2. Five-Year Capital Expenditure Plan

FIS Approval: MB (initials)

CA Approval: JS (initials)

Jeffrey Strafford

JEFFREY STRAFFORD
Director of Financial Planning & Analysis

Marla Bleavins

MARLA BLEAVINS
Deputy Executive Director &
Chief Financial Officer

APPROVED:

Marla Bleavins For

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Executive Director

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