

**DATE:** April 23, 2019

**SUBJECT: FY 2020 BUDGET WORKSHOP**

**..Title**

- A) ACCEPT THE FISCAL YEAR (FY) 2020 PRELIMINARY BUDGET INFORMATION AND PROVIDE DIRECTION TO STAFF, WHICH INCLUDES THE USE OF CUMULATIVE UNRESTRICTED RESOURCES OF \$4.2M**
- B) RESOLUTION TO MAINTAIN THE FY 2019-2023 CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET AND TO NOT SOLICIT PROJECT APPLICATIONS OR HOLD A CIP WORKSHOP IN FY 2020 PURSUANT TO BOARD POLICY NO. 120**
- C) RESOLUTION, PER BOARD POLICY NO. 90, TO REALLOCATE THE REMAINING BALANCE OF \$2,485,000 FROM THE NAVY PIER HEADHOUSE DEMOLITION PROJECT WITHIN CIP BY TRANSFERRING \$900K FROM THIS AMOUNT TOWARDS CAPITAL LABOR AND TRANSFERRING THE REMAINING \$1,585,000 INTO CIP CONTINGENCY FOR FUTURE NEEDS**

**..Body**

**EXECUTIVE SUMMARY:**

In accordance with the San Diego Unified Port District Act (Port Act) Sections 46 and 47, by June 15, the District must adopt and publish the FY 2020 preliminary budget and set a date for the Board's adoption of the final budget not less than one month from publication. Staff intends to present the FY 2020 preliminary budget to the Board for adoption on May 14, 2019 and present the final budget to the Board for adoption on June 18, 2019. Before the presentation of the preliminary budget to the Board on May 14, staff is conducting a workshop to present a draft preliminary budget and receive direction from the Board, answer any questions the Board may have, and receive public comment.

The FY 2020 preliminary budget was developed in alignment with the strategic goals of the organization consisting of the four main strategies of Culture, Operations, Business, and Brand (COBB) supporting several goals, and strategic projects aligned to those goals.

Based on previous Board direction, staff developed the FY 2020 preliminary budget. Departments also developed operating plans that reflect core services and resources needed for the execution of the strategic projects. Resources required to support these goals and strategic projects are included in this budget.

Additionally, the budget is shaped by significant cost drivers in carrying out principles in the Port Act. These drivers include championing environmental protection and complying with increasing regulations, such as increased stormwater-related projects, and despite rising costs from requirements and regulations, maintaining the Port's infrastructure through ongoing major maintenance, providing a secure, stable, high performing technology environment, promoting the public's enjoyment of tidelands, public safety, and enhancing economic development.

The preliminary budget plans to provide an “Unrestricted Sources Over Uses of Funds” (Unrestricted Resources) of \$2.0M, and includes a \$1.0M contingency that is budgeted in expenses.

Additionally, staff recommends the Board maintain the current CIP program and budget. Pursuant to BPC Policy No. 120 - Capital Improvement Program, at the April Board meeting each year, the Board is to determine the amount of funding available for new CIP projects and decide whether to solicit project application forms for consideration at the following fall CIP workshop. Due to the amount of deferred maintenance projects that are impacting our infrastructure, staff recommends the Board not solicit project application forms or hold a CIP workshop in FY 2020.

Lastly, staff recommends the Board reallocate remaining funds from the Navy Head House Demolition Project of \$2,485,000 and transfer \$900k to CIP Capital Labor to fund staff's efforts on active projects through FY2020 and the remaining \$1,585,000 to CIP Contingency for future needs. The Navy Pier Head House Demolition project will remain in the CIP and staff will return to the Board at a later date once funding has been identified to complete the project

### **RECOMMENDATION:**

- A) Accept the FY 2020 preliminary budget information and provide direction to staff, which includes the use of cumulative unrestricted resources of \$4.2M
- B) Adopt a resolution to maintain the FY 2019-2023 CIP budget and to not solicit project applications or hold a CIP workshop in FY 2020 pursuant to Board Policy No. 120
- C) Adopt a resolution, per Board Policy No. 90, reallocating the remaining balance of \$2,485,000 from the Navy Pier Headhouse Demolition Project in the 2019-2023 CIP by transferring \$900k from this amount towards capital labor and transferring the remaining \$1,585,000 into CIP contingency for future needs

### **FISCAL IMPACT:**

This proposed Board actions have no immediate fiscal impact until the Board adopts the FY 2020 final budget on June 18, 2019.

### **COMPASS STRATEGIC GOALS:**

This agenda item supports the following Strategic Goal(s).

- A Port that the public understands and trusts.
- A thriving and modern maritime seaport.
- A vibrant waterfront destination where residents and visitors converge.
- A Port with a healthy and sustainable bay and its environment.
- A Port with a comprehensive vision for Port land and water uses integrated to regional plans.
- A Port that is a safe place to visit, work, and play.

- A Port with an innovative and motivated workforce.
- A financially sustainable Port that drives job creation and regional economic vitality.

## **DISCUSSION:**

### **FY 2020 PRELIMINARY BUDGET INFORMATION:**

This preliminary budget was developed in alignment with the Strategic Goals. Over the last three years, strategic planning at the District has evolved into a disciplined, structured process culminating in an 18-month strategy map aligned with the District's vision and purpose. This strategy map is populated with strategic projects which advance the District's four main strategies of Culture, Operations, Business, and Brand (COBB) and achieve the goals identified for each strategy. This year, our strategic planning process was aligned and integrated with our traditional budget process allowing staff to re-align resources to execute on the projects the Board expects within the 18-month time horizon of the strategy map.

Following are some highlights and changes in developing the budget:

- The proposed budget includes a full year of operations of Seaport Village, including one-time investment spending of \$2.2M that was previously approved by the Board for repairs and to activate Seaport Village to make the area more appealing to the public and potential tenants to occupy the available leaseholds.
- Major Maintenance (MM) is proposed to be fully funded entirely from operations without the use of funding from other sources as in prior years.
- The proposed budget reflects increases in capital spending for Technology as part of a continuing effort to provide a secure, stable, and high performing technology environment.
- Non-Personnel Expenses (NPE) that were not contractually required were generally reduced. Staff refined expense budgets by analyzing NPE spending compared to budget over the last several years to identify areas that were consistently under budget and areas that could benefit from additional funding.
- Apply a portion of the estimated reimbursements from specific insurance claims as a source of funds to cover related expenses for technology investments, and environmental investigative orders, along with the required matching funds for TIGER being funded similar to prior years, resulting in the use of cumulative unrestricted resources of \$4.2M
- No increase in headcount except in the Information Technology Department and Executive Office. Staff spent considerable time to identify core services that the District provides to align our resources with our expected core services.
- The proposed budget plans to provide an "Unrestricted Sources Over Uses of Funds" (Unrestricted Resources) of \$2.0M, and includes a \$1.0M contingency that is budgeted in NPE.

The table below is a summary of the FY 2020 preliminary budget:

	Adjusted Budget FY 2019	Preliminary Budget FY 2020	Change FY 2020-2019 Budget	% Change
<b>Revenue</b>				
Operating	\$ 185.1	\$ 192.8	\$ 7.7	4.2%
Non-Operating	11.3	21.8	10.5	92.9%
<b>Total Revenue</b>	<b>\$ 196.4</b>	<b>\$ 214.6</b>	<b>\$ 18.2</b>	<b>9.3%</b>
<b>Expenses</b>				
Personnel	\$ 99.6	\$ 103.4	\$ 3.8	3.8%
Non-Personnel	73.2	74.5	1.3	1.8%
Major Maintenance Expense	0.2	0.9	0.7	350.0%
Capitalized Labor	(3.9)	(4.0)	(0.1)	2.6%
<b>Total Expenses</b>	<b>\$ 169.1</b>	<b>\$ 174.8</b>	<b>\$ 5.7</b>	<b>3.4%</b>
<b>Other Sources and Uses</b>	<b>\$ (23.7)</b>	<b>\$ (37.8)</b>	<b>\$ (14.1)</b>	<b>59.5%</b>
<b>Unrestricted Sources Over Uses of Funds</b>	<b>\$ 3.6</b>	<b>\$ 2.0</b>	<b>\$ (1.6)</b>	<b>(44.4)%</b>

#### Revenues:

FY 2020 revenue is budgeted at \$214.6M, an increase of \$18.2M or 9.3%, with Operating revenue providing \$7.7M of the increase. This includes an increase in Real Estate revenue of \$8.3M or 7.7% mainly due to increases in hotel concessions of \$4.2M, increases in Seaport Village revenue of \$2.1M due to a full year of operations under the District's ownership, and an increase of \$1.9M in restaurants, marinas, sport fishing, and other concession generating tenants. Maritime business is expected to decrease \$673k mainly from a decrease in revenues at National City Marine Terminal (NCMT) from a decrease in automobile storage and lower projections in waterborne automobile units. Non-waterborne cargo has lower tariff rates than waterborne units, resulting in a decrease in revenue. The decrease at NCMT was partially offset by increases in fixed rent revenue from new leases at the National City Distribution Center (NDC) and an increase in cruise ship revenues resulting from an increase in projected cruise calls. Revenues from reimbursements for police services to the airport is also expected to increase as well as police related grant reimbursements. Non-operating revenue is expected to increase by \$10.5M, with capital grants reimbursements providing the \$5.9M of the increase, \$3.9M from the car rental fees, and the remainder from higher interest revenues. The car rental fees are

restricted for the purpose of a parking structure that will be part of the Chula Vista Bayfront project.

Expenses:

Total expenses are expected to increase by \$5.7M or 3.4%.

Personnel expense is budgeted at \$103.4M an increase of \$3.8M or 3.8%. The increase was primarily from the addition of seven regular positions, negotiated increases, step increases, changes from desk audits, and increases to maintain a competitive wage structure. Additionally, the annual determined contribution for pension, based on the San Diego City Employees' Retirement System's (SDCERS) latest actuarial report increased by \$1.4M.

NPE is budgeted at \$74.5M. This includes the full year's operation expenses for Seaport Village, including activation and site enhancements totaling \$5.7M (a \$3.0M increase for Seaport Village operations over the prior year expenses). NPE without Seaport Village is budgeted to decrease by \$1.0M and was achieved by reducing the non-contractually related NPE.

Other Sources and Uses:

Other Sources and Uses include capital expenditures such as Capital Major Maintenance, Technology Capital projects, Equipment Outlay, Capital Improvement Program (CIP), and other uses such as Debt Service, and annual set-asides for funds. This also includes sources for some specific expenditures from reserves such as CIP, Environmental Fund, Maritime Industrial Impact Fund (MIIF), etc.

Following are some highlights in Other Sources and Uses:

- Capital Major Maintenance is budgeted at \$8.9M in FY 2020 and is fully funded from operations without the use of funding from other sources.
- Technology Capital Projects is budgeted at \$5.6M an increase of \$1.2M to support various strategic projects and provide enhanced technology and system upgrades.
- Car Rental Transaction Fees is budgeted at \$3.0M and will be restricted for the purpose of constructing a parking structure that will be part of the Chula Vista Bayfront project.
- Chula Vista Bayfront set-aside is budgeted at \$1.7M. This represents the commitment of existing annual revenues from the Chula Vista RV Park and Marina for the purpose of the Chula Vista Bayfront development.

**STAFF RECOMMENDATION TO USE \$4.2M CUMULATIVE UNRESTRICTED RESOURCES TO FUND TIGER MATCHING FUNDS, TECHNOLOGY INVESTMENTS, AND ENVIRONMENTAL INVESTIGATIVE ORDERS:**

Staff is recommending applying estimated reimbursements from specific insurance claims as a source of funds to cover related expenses for technology investments, and environmental investigative orders, along with the required matching funds for TIGER being funded similar to prior years, resulting in use of cumulative unrestricted resources of \$4.2M.

**RESOLUTION TO MAINTAIN THE FY 2019-2023 CIP BUDGET AND TO NOT SOLICIT PROJECT APPLICATIONS OR HOLD A CIP WORKSHOP IN FY 2020:**

FY 2020 marks the second year of the CIP's 5-year cycle that will extend to FY 2023. At the beginning of FY 2020, the CIP budget is projected to be \$30.5M, and expenditures are forecast to be \$21.8M. Pursuant to BPC Policy No. 120 - Capital Improvement Program, at the April Board meeting each year, the Board is to determine the amount of funding available for new CIP projects and decide whether to solicit project application forms for consideration at the following fall CIP workshop. Due to the amount of deferred maintenance projects that are impacting our infrastructure, staff recommends the Board not solicit project application forms or hold a CIP workshop in FY 2020.

**STAFF RECOMMENDATION TO REALLOCATE THE REMAINING CIP FUNDS OF \$2,485,000 FROM THE NAVY HEADHOUSE DEMOLITION PROJECT TO FUND \$900K OF CIP CAPITALIZED LABOR AND TO TRANSFER THE REMAINING BALANCE OF \$1,585,000 TO CIP CONTINGENCY FOR FUTURE NEEDS:**

Staff recommends the Board reallocate remaining funds from the Navy Head House Demolition Project of \$2,485,000 and transfer \$900k to CIP Capital Labor to fund staff's efforts on active projects through FY2020 and the remaining \$1,585,000 to CIP Contingency for future needs. The Navy Pier Head House Demolition project will remain in the CIP and staff will return to the Board at a later date once funding has been identified to complete the project.

The budget is prepared in a manner that facilitates its understanding by the public as well as District officials. Presenting a clear, readable budget will communicate effectively overall District goals and plans and contribute to the public's knowledge and appreciation of the District's positive impact on the region.

**General Counsel's Comments:**

The Office of the General Counsel has reviewed and approved this agenda as to form and legality.

**Environmental Review:**

The proposed Board action, including without limitation, accepting the FY 2020 preliminary budget information and providing direction to staff, adopting a resolution to maintain the CIP and not solicit for new projects to hold a CIP workshop, and resolution transferring funds within the existing CIP do not constitute an "approval" or a "project" under the definitions set forth in California Environmental Quality Act (CEQA) Guidelines Sections 15352 and 15378 because no direct or indirect changes to the

physical environment would occur. CEQA requires that the District adequately assess the environmental impacts of projects and reasonably foreseeable activities that may result from projects prior to the approval of the same. Any project developed as a result of Board's action that requires the District or the Board's discretionary approval resulting in a physical change to the environment will be analyzed in accordance with CEQA prior to such approval. CEQA review may result in the District, in its sole and absolute discretion, requiring implementation of mitigation measures, adopting an alternative, including without limitation, a "no project alternative" or adopting a Statement of Overriding Consideration, if required. The current Board direction in no way limits the exercise of this discretion. Therefore, no further CEQA review is required.

In addition, the proposed Board direction or action complies with Sections 20, 21, 35, 46, and 47 of the Port Act, which require the Board to draw up a budget for each fiscal year, to adopt a preliminary budget, to publish a public notice regarding adoption of the preliminary budget, and to hold a public hearing prior to fixing the final budget, and allow the Board to pass resolutions and to do all acts necessary and convenient for the exercise of its powers. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.

The proposed Board direction or actions do not allow for "development," as defined in Section 30106 of the California Coastal Act, or "new development," pursuant to Section 1.a. of the District's Coastal Development Permit (CDP) Regulations because they will not result in, without limitation, a physical change, change in use or increase the intensity of uses. Therefore, issuance of a Coastal Development Permit or exclusion is not required. However, development within the District requires processing under the District's CDP Regulations. Future development, as defined in Section 30106 of the Coastal Act, will remain subject to its own independent review pursuant to the District's certified CDP Regulations, PMP, and Chapters 3 and 8 of the Coastal Act. The Board's direction or action in no way limits the exercise of the District's discretion under the District's CDP Regulations. Therefore, issuance of a CDP or exclusion is not required at this time.

**Equal Opportunity Program:**

Not applicable.

**PREPARED BY:**  
Robert DeAngelis  
CFO/Treasurer

Attachment A: Preliminary FY 2020 Annual Budget