



**Attachment A to Agenda File No. 2018-0175**  
**San Diego Unified Port District**

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3165 Pacific Hwy.  
San Diego, CA 92101

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**File #:**2018-0141

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**DATE:** April 17, 2018

**SUBJECT: FY 2019 BUDGET WORKSHOP**

- **ACCEPT THE FISCAL YEAR (FY) 2019 PRELIMINARY BUDGET INFORMATION AND DIRECTION TO STAFF**
- **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 2019**

**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 2019 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 2019 preliminary budget to the Board for adoption on May 8, 2018, and present the final budget to the Board for adoption on June 12, 2018. Before the presentation of the preliminary budget to the Board on May 8, staff is conducting a workshop to present a draft preliminary budget and receive direction from the Board as to possible changes to that draft, answer any questions the Board may have, and receive public comment.

The FY 2019 budget is integrated closely with the strategic goals of the organization consisting of the four main strategies of Culture, Operations, Business, and Brand (COBB) supporting several goals, and 29 strategic projects aligned to those goals.

The Board provided early guidance on the budget. Based on this early consultation and planning, staff developed the FY 2019 preliminary budget. Departments also developed operating plans that reflect core services and resources needed for the execution of the 29 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 Public Trust doctrine. 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, promoting the public's enjoyment of tidelands, public safety, and enhancing economic development.

Following are key guidance and observations from the Board that staff used in developing the budget and some highlights and changes:

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- The proposed budget does not use any of the cumulative unrestricted resources balance, except to fund the matching funds for the Transportation Investment Generating Economic Recovery (TIGER) grant project.
- Ongoing Major Maintenance (MM) is proposed to be funded from operations in FY 2019 instead of partly funding from the cumulative unrestricted resources in prior years.
- The proposed budget does not expend the incremental net revenues provided from the change in ownership of Seaport Village.
- The proposed budget presents variable staffing costs differently than has occurred in past budgets with a focus on flexibility in variable staffing needs. Variable staffing is presented as a separate cost center and shows only total dollar amounts. Variable staffing is intended to cover interns, student workers, limited employees, and temporary workers.
- The resources from two departments: 1) Port as a Service - Attractions & Advertising, and 2) Enterprise Strategy & Innovations were redeployed based on a determination that those resources would be more efficiently utilized supporting the goals of long-standing departments.
- The proposed budget was based on a budget guideline for departments to reduce Non-Personnel Expense (NPE) where significant underspending against budget occurred in the last three years. This achieved an overall reduction in NPE and MM expense combined of \$177k despite an additional \$2.7M in NPE for the new operating expenses of managing the assets of Seaport Village, and \$1.0M increase for the Coronado Bridge Lighting Project, which is funded from donations.

The preliminary budget currently provides an “Unrestricted Sources Over Uses of Funds” (Unrestricted Resources) of \$6.0M, which includes the incremental net proceeds from the operation of Seaport Village. This budget also includes a total cost of \$8.5M for Stormwater and Water Quality projects, which are budgeted in various cost centers and expense appropriations. Also included is a total MM cost of \$10.0M discussed separately.

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 2019.

**RECOMMENDATION:**

- Accept the FY 2019 preliminary budget information and provide direction to staff
- Adopt a resolution to maintain the FY 2019-2023 CIP budget and to not solicit project applications or hold a CIP workshop in FY 2019

**FISCAL IMPACT:**

This proposed Board action has no immediate fiscal impact until the Board adopts the FY 2019 final budget on June 12, 2018.

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## **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 2019 PRELIMINARY BUDGET INFORMATION:**

#### **Department Operating Plans:**

Departments developed Operating Plans that reflect the key services they provide. Individual Department Operating Plans are now reflected in the preliminary budget book along with their respective budgets. The combination of these two items informs the Board and the public of the multitude and diversity of tasks and funding needed to operate the Port and meet its commitments. These Operating Plans have been developed jointly between departments through a process of interlocking to ensure that each department considers the impacts of their resource needs, key services, and priorities on other departments. This process assures a cohesive plan for each department and the District as a whole. This FY 2019 preliminary budget reflects the resources allocated to provide key services as described in each department's Operating Plan and to support the 18-month Strategy Map through the fiscal year.

#### **Variable Staffing:**

The District personnel expenses consist of limited and temporary employees, interns, and student workers (herein termed variable staffing), along with regular employees. The District continues to manage the increasing demands for resources associated with the Operating Plans and the Strategy Map by relying more on the flexibility of having these variable staff. Services of limited and temporary employees, interns, and student workers may be reduced at any time as the nature of these services are limited in duration. For instance, by Board Policy, in the event of an economic downturn in finances, reductions would first occur in this variable staffing category.

A new cost center to capture the cost of the variable staffing workforce was created for this budget. Departments that had variable staffing employees in the prior year's budget would reflect them as being transferred from the respective cost center to the variable staffing cost center. The personnel expense for variable staffing will still be included as part of the Total Personnel Expense Appropriation, consistent with prior years' budgets.

**File #:2018-0141****Stormwater and Water Quality:**

In recent years, there has been a noticeable increase in the costs of stormwater and water quality compliance for both agencies and developers. To better account for these rising costs as a part of the FY 2019 budget preparation process, staff aggregated all capital and non-personnel costs for stormwater and water quality for a clearer and more comprehensive picture of these expenditures. For FY 2018, District related stormwater and water quality related costs totaled \$2.9M, with \$1.6M in base stormwater expenses associated with Port operations, legal obligations, and program management activities such as maintenance of stormwater structures, monitoring, inspections, education, and overall compliance with a variety of stormwater permit requirements. Additionally, there was \$750k in base water quality costs related primarily to Clean Water Act responsibilities. Finally, there was \$515k budgeted for structural stormwater improvements associated with engineering and construction projects around the tidelands, which were representative of the increasing costs of such improvements that the District is increasingly required to implement.

In FY 2019, there is \$8.5M in stormwater and water quality capital and non-personnel expenditures, which is almost three times the FY 2018 budgeted expenditures. Much of the increase is attributable to one-time projects, however, it is important to point out that staff expects there would be other one-time projects and base expense increases in future budget years, as a result of increasing stormwater and water quality requirements. Highlights of the most significant above base costs in FY 2019 include:

- \$3.2M in structural stormwater improvements associated with implementation of the TIGER Discretionary Grant for the Tenth Avenue Marine Terminal.
- \$1.2M in one-time water quality monitoring for San Diego Bay, which includes a one-time monitoring obligation of \$1.1M as a part of the five-year Regional Harbor Monitoring Program (RHMP). Note that \$515k is reimbursable to the Port from the other participating agencies including Orange County and the cities of Oceanside and San Diego pursuant to the RHMP.
- \$1.1M of one-time expenses proposed for inclusion in the budget including development of a retrofitted trash capture system and program in compliance with new regulations, installation of new stormwater inserts at all three marine terminals, development of a proactive stormwater credit program to fund stormwater and water quality projects and help the Port and tenants meet structural stormwater requirements, development of a 10-year stormwater strategy focused on mapping a prioritized pathway for future stormwater improvements, and an equipment purchase of a new street sweeper estimated to cost \$360k.

The proposed and aggregated expenses show the Port is making significant investments to safeguard the water quality in San Diego Bay by meeting our obligations and in some instances going above and beyond to ensure the waters of San Diego Bay can be enjoyed by all.

**Environmental Fund:**

Pursuant to BPC Policy No. 730 - Port Environmental Advisory Committee Policy, the purpose of the Environmental Fund is to fund projects that address air, water and sediment quality, sustainability and climate action planning, natural resources and endangered species management, habitat creation, restoration and protection, reclaiming natural shoreline conditions, environmental education, and

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environmental research and monitoring. For FY 2019, staff is proposing over \$3.8M of Environmental Fund expenditures to cover a mixture of one-time capital and non-personnel expenses. All proposed expenses are in alignment with the purpose of BPC Policy No. 730. There is approximately \$2.0M related to stormwater and water quality expenses, which offset a portion of the \$8.5M detailed above. The remaining portion of proposed expenditures is for environmental education, mitigation banking, habitat restoration, endangered species management, environmental research and monitoring, and climate action plan implementation.

**Major Maintenance Program:**

The MM program has a proposed budget of \$10.0M to manage the Port's assets. Based on a 10-year forecast from the Asset Management Program (AMP), the District would need to expend approximately \$134.0M over the next ten years in order to accomplish all the major maintenance needs. Spread over a 10-year period, the District would have to allocate \$13.0M annually in order to successfully complete the deferred projects. Given the District's need to address regulatory requirements and other commitments, only \$10.0M can be allocated for the FY 2019 budget.

Approximately, \$3.3M of the \$10.0M budget is planned to be sourced out of CIP. Staff is proposing to defer the Former Navy Pier Head House Demolition CIP project, which would allow for the transfer of \$3.3M from the remaining project funds to the Structural Repairs at Navy Pier MM project pursuant to BPC Policy No. 90 - Transfer Between or Within Appropriated Items in the Budget. Without this transfer, the proposed MM budget would need to be scaled back even further.

The table below is a summary of the FY 2019 preliminary budget:

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## Preliminary Budget FY 2019

(millions)

	Adjusted Budget FY 2018	Preliminary Budget FY 2019	Change FY 2019-2018 Budget	% Change
<b>Revenue</b>				
Operating	\$ 175.0	\$ 185.1	\$ 10.1	5.8%
Non-Operating	13.9	10.0	(3.9)	(28.1)%
<b>Total Revenue</b>	<u>\$ 188.9</u>	<u>\$ 195.1</u>	<u>\$ 6.2</u>	<u>3.3%</u>
<b>Expenses</b>				
Personnel	\$ 97.8	\$ 102.5	\$ 4.7	4.8%
Non-Personnel	72.6	73.2	0.6	0.8%
Major Maintenance Expense	1.0	0.2	(0.8)	(80.0)%
Capitalized Labor	(3.3)	(3.6)	(0.3)	9.1%
<b>Total Expenses</b>	<u>\$ 168.1</u>	<u>\$ 172.3</u>	<u>\$ 4.2</u>	<u>2.5%</u>
<b>Other Sources and Uses</b>	<u>\$ (18.7)</u>	<u>\$ (16.8)</u>	<u>\$ 1.9</u>	<u>(10.2)%</u>
<b>Unrestricted Sources Over Uses of Funds</b>	<u>\$ 2.1</u>	<u>\$ 6.0</u>	<u>\$ 3.9</u>	<u>185.7%</u>

### Revenues:

FY 2019 revenue is budgeted at \$195.1M, an increase of \$6.2M or 3.3% year-to-year increase with Operating revenue providing \$10.1M of the increase. This includes an increase in Real Estate concession revenue of \$10.6M of which \$6.8M is attributable to the District assuming ownership and management of the assets of Seaport Village upon the expiration of its lease and \$2.0M from a continuation of the upward trend in hotel revenues, \$900k from revenues from marinas, and \$500k in revenue from restaurants. Maritime business is also expected to increase \$817k from increased operations at Tenth Avenue Marine Terminal (TAMT), and an increase in cruise ship revenues. Revenues from reimbursements for police services to the airport is also expected to increase as well as police related grant reimbursements. Capital grants reimbursements are expected to decrease by \$5.1M from the anticipated completion of the Shelter Island Boat Launching facilities.

### Expenses:

Total expenses are expected to increase by \$4.2M.

In FY 2019, the number of District personnel is budgeted to remain flat; however, three Harbor Police limited positions will become regular employees, bringing the total number of budgeted regular positions to 569, compared to 566 in the prior fiscal year. The budgeted year-over-year increase in Personnel expense is \$4.7M or 4.8%. The increase was primarily from negotiated increases, step increases, changes from desk audits, and increases to maintain a competitive wage structure. Additionally, workers' compensation increased by \$1.0M primarily for Harbor Police from existing

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claims.

NPE is budgeted at \$73.2M and MM expense at \$0.2M, resulting in a combined reduction of \$177k year-to-year despite a \$2.7M increase in NPE for the new operating expenses of managing the assets of Seaport Village, and \$1.0M increase for the Coronado Bridge Lighting Project, which is funded from donations. The reduction was achieved primarily through a District budget guideline to reduce NPE where significant underspending against budget occurred in the last three years. The most significant change in NPE is a decrease in Contractual Services costs of \$3.5M or 14.6%, which includes Professional Services decreasing by \$1.4M.

#### Other Sources and Uses:

Other Sources and Uses include “other sources” such as funds from the Capital Improvement Program, and “other uses” such as capital expenditures. The net difference of \$1.9M is primarily the result of deferring technology capital expenditures to ensure alignment with strategic goals.

#### **STAFF RECOMMENDATION TO USE \$5.6M CUMULATIVE UNRESTRICTED RESOURCES TO FUND TIGER MATCHING FUNDS:**

Staff is recommending additional funds in the amount of \$5.6M for the Demolition and Site Improvements of Transit Sheds 1 and 2 at TAMT project from cumulative unrestricted resources.

#### **STAFF RECOMMENDATION TO REPAIR NAVY PIER WITH THE FUNDS IDENTIFIED FOR NAVY PIER IN CIP:**

Staff recommends applying \$3.3M of CIP funds from the former Navy Pier Head House Demolition to the Structural Repairs at Navy Pier project in the Capital MM. Design and construction of the Navy Pier Head House Demolition CIP project is currently on hold until some engineering solutions and additional funding is identified. While this process is underway, other immediate repairs on the pier have been identified by the AMP that are necessary to keep the pier functional but also to strengthen the pier for the eventual demolition of the Head House. The Structural Repairs at Navy Pier project was designed in FY 2017 as a Capital MM project. Staff recommends transferring \$3.3M from the Navy Pier Head House Demolition CIP project to the Structural Repairs at Navy Pier Capital MM project.

#### **REQUEST ALLOCATING CUMULATIVE UNRESTRICTED RESOURCES OF \$450K TO BE USED FOR BAYWIDE INFORMATION AND WAYFINDING SIGNAGE:**

Staff recommends using \$450k of cumulative unrestricted resources in FY 2019 to fund baywide informational and wayfinding signage. These funds will be used to develop a comprehensive master plan and guidelines for all Port signage across the District, including iconic, monument, wayfinding, rules, and experiential signage to create consistency, help the public navigate the Tidelands, and improve the experience on the waterfront. Additionally, these funds will be used to begin the multi-year process of updating the signage along the waterfront based on the new guidelines. This \$450k of expense is not included in this FY 2019 preliminary budget.

#### **RESOLUTION TO MAINTAIN THE FY 2019-2023 CIP BUDGET AND TO NOT SOLICIT PROJECT**

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**APPLICATIONS OR HOLD A CIP WORKSHOP IN FY 2019:**

FY 2019 marks the beginning of the CIP's 5-year cycle that will extend to FY 2023. The 5-year CIP consists of 10 projects rolled over from the FY 2014-2018 CIP, pursuant to Resolution 2017-0340. The program budget is comprised of remaining funds and grants. At the beginning of FY 2019, the CIP budget is projected to be approximately \$27.0M. The following projects make up the FY 2019-2023 CIP:

- Demolition and Site Improvements of Transit Sheds 1 and 2 at TAMT
- Former Navy Pier Head House Demolition
- Comfort Station and Street End Improvements at Beach Avenue
- Shelter Island Boat Launch Facility Improvements
- Site preparation at Chula Vista Bayfront
- National City Marina District Vision Plan Preliminary Planning
- Setback Park/Plaza
- B Street Mooring Dolphin
- Chula Vista Bayfront - South Campus Pavement and Foundation Demolition
- Cruise Ship Terminal (CST) Shore Power

Due to the amount of deferred maintenance projects, which are impacting our infrastructure, and a projected CIP expenditure of \$24.0M in FY 2018, followed with a planned CIP expenditure of \$14.4M in FY 2019, staff recommends the Board decide to not solicit project application forms or hold a CIP workshop in FY 2019.

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:**

This presentation to the Board on the FY 2019 preliminary budget information and direction to staff does 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

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indirect changes to the physical environment would occur. Pursuant to Section 15378(b)(4) of the State CEQA Guidelines, a project does not include the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment. 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 or direction 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 presentation and direction to staff complies with Section 20 of the Port Act, which requires the Board to draw up a budget for each fiscal year. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed presentation is consistent with the Public Trust Doctrine.

The presentation and direction to staff does 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 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 2019 Annual Budget