



Legislation Text

File #: 2020-0168, **Version:** 1

DATE: May 19, 2020

SUBJECT: FY 2021 PRELIMINARY BUDGET ADOPTION

- **RESOLUTION TO REDUCE THE FY 2019-2023 CAPITAL IMPROVEMENT PROGRAM (CIP) BY \$5.7M AND ALLOCATE THE FUNDS TO THE CUMULATIVE UNRESTRICTED RESOURCES**
- **RESOLUTION AUTHORIZING THE USE OF CUMULATIVE UNRESTRICTED RESOURCES OF APPROXIMATELY \$15.7M FOR THE FOLLOWING: OPERATING BUDGET DEFICIT \$9.9M, COAST GUARD BUILD-OUT \$2.2M, SEAPORT VILLAGE PRE-APPROVED FUNDING \$2.8M, AND MAJOR MAINTENANCE MULTI-YEAR PROGRAM CARRYOVER FUNDING OF \$0.8M**
- **RESOLUTION NOT TO SOLICIT PROJECT APPLICATIONS OR HOLD A CIP WORKSHOP PURSUANT TO BOARD POLICY NO. 120**
- **RESOLUTION ADOPTING THE FY 2021 PRELIMINARY BUDGET AND SETTING THE DATE FOR PUBLIC HEARING ON THE BUDGET AS JUNE 23, 2020**

EXECUTIVE SUMMARY:

In accordance with the San Diego Unified Port District Act (Port Act) Sections 46 and 47, by June 15, 2020, the District must adopt and publish the Fiscal Year (FY) 2021 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 2021 Preliminary Budget to the Board for adoption on May 19, 2020 and present the final budget to the Board for adoption on June 23, 2020.

In previous years, the budget has generally been developed on the belief that the national and local economy will continue to grow at a moderate pace. Now, as a direct consequence of the unforeseen COVID-19 pandemic, the hospitality and tourism industries and maritime trade economic activity that generate the revenues necessary for the District's mission-critical work have been significantly and negatively impacted.

In response to these unique circumstances, at the March Board meeting, a 2020 Budget Impact Ad Hoc Committee (Ad Hoc) was created to proactively address the financial impacts of the COVID-19 pandemic. District staff developed and worked with the Ad Hoc on three detailed scenarios for FY

2021, entitled Worse Case, Base Case, and Better Case, and presented the three scenarios at a special Board meeting on April 8, 2020. At that special meeting, the Board directed staff to prepare the FY 2021 preliminary budget using the Base Case scenario; Reduce the FY 2019-2023 CIP budget by \$5.7M and allocate the funds to the FY 2021 Operating Budget; and use Cumulative Unrestricted Resources to fund the deficit. Staff also recommended to monitor the District's performance against the budget frequently, reporting any changes to the Board and recommending adjustments to respond to changing economic conditions in connection with the COVID-19 pandemic.

This FY 2021 Preliminary Budget was prepared using the Base Case scenario with expenditures matching as closely as possible the revenue projections. Staff identified significant expense reductions and prepared some across-the-board percentage cuts in non-personnel expenses, major maintenance, equipment and other capital projects, technology management, and a variety of other programs. Staff also re-prioritized some expenses in order to find funding for programs that the Board wanted to continue to pursue such as the Clean Air program, the Port Master Plan Update (PMPU), homeless outreach, and some of the Blue Tech projects that could be a source of future revenue stream.

Staff also developed a range of strategies and measures to reduce expenses in the personnel budget and implemented some cost-saving measures that can be implemented quickly and do not require a meet and confer process with our collective bargaining units, with the underlying objective of keeping as many of our regular full-time employees working as possible, for as long as possible. The following cost-saving measures are being implemented quickly, as these do not require a meet and confer process with our collective bargaining units:

- Released all interns and all temporary employees;
- Stopped hiring for all vacant positions except dispatcher positions;
- Reduced overtime;
- Two percent (2%) pay-cut for all unrepresented employees with annual salaries of greater than \$75,000;
- No salary increases/cost of living adjustments (three percent (3%) increase) for all unrepresented employees;
- No merit increases for all unrepresented employees; and
- Unfunded 25 vacant regular positions of the 585 budgeted.

Additionally, while preparing this information, many District tenants requested rent relief. In response, District staff prepared an overall recommendation for a rent deferral program with a zero-interest repayment plan and waiver of late fees.

The District, created by the State of California Legislature, is a self-funded agency. The District collects no tax dollars, instead funding its operations and services through leases and other business agreements with tenants along the waterfront. The services funded by District revenues include, among other items, public safety, economic development activities, and supply chain transportation services that are critical for our region, state, and nation especially during the COVID-19 pandemic.

At the May 19, 2020 Board meeting, staff is presenting for adoption the FY 2021 Preliminary Budget

and the following corresponding actions necessary for the FY 2021 Preliminary Budget:

- Adopt resolution to reduce the FY 2019-2023 CIP by \$5.7M and allocate the funds to the Cumulative Unrestricted Resources.
- Adopt resolution authorizing the use of Cumulative Unrestricted Resources of approximately \$15.7M for the following: Operating Budget Deficit \$9.9M, Coast Guard Build-Out \$2.2M, Seaport Village Pre-Approved Funding \$2.8M, and Major Maintenance Multi-Year Program Carryover Funding of \$0.8M.
- Adopt resolution to not solicit project applications or hold a CIP workshop pursuant to Board Policy No. 120.

Due to a strong tradition of budget discipline and prudent policy direction, the District has not only maintained its Operating Reserves, but has also accumulated surplus funds in recent years that provide the District with a variety of tools to produce a FY 2021 budget that demonstrates the continued commitment to all stakeholders.

The District is an economic driver for the greater San Diego region, serving as a job creator and a job supporter, as well as a critical link in our nation's supply chain. Even under today's unprecedented social and economic climate, the District is very well positioned to continue to serve as that important economic engine; *to support jobs, to move goods, and to perform the many essential services that the District provides.*

It is important to reiterate that the FY 2021 budget is a plan that the Board can amend at any time during the year.

RECOMMENDATION:

- Adopt resolution to reduce the FY 2019-2023 CIP by \$5.7M and allocate the funds to the Cumulative Unrestricted Resources
- Adopt resolution authorizing the use of Cumulative Unrestricted Resources of approximately \$15.7M for the following: Operating Budget Deficit \$9.9M, Coast Guard Build-Out \$2.2M, Seaport Village Pre-Approved Funding \$2.8M, and Major Maintenance Multi-Year Program Carryover Funding of \$0.8M
- Adopt resolution not to solicit project applications or hold a CIP workshop pursuant to Board Policy No. 120
- Adopt a resolution adopting the FY 2021 Preliminary Budget and setting the date for public hearing on the Budget as June 23, 2020.

FISCAL IMPACT:

This proposed Board action has no fiscal impact. This item approves publication of the preliminary budget document and signals the start of the 30-day public comment period.

COMPASS STRATEGIC GOALS:

This agenda item will help shape the FY 2021 Final Budget which, when adopted, will support the Compass Strategic Goals by allocating funds for Board priority projects and regulatory compliance.

This agenda item supports the following Strategic Goals:

- 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:

RESOLUTION ADOPTING THE FISCAL YEAR 2021 PRELIMINARY BUDGET AND SETTING THE DATE FOR PUBLIC HEARING ON THE BUDGET AS JUNE 23, 2020

Staff currently estimates potential lost revenue across almost every major revenue category for the District, as a result of the pandemic, through the remainder of FY 2020 and expects revenue losses to continue through the rest of calendar year 2020. Unlike many public agencies, the District receives no tax funds to help stabilize revenues in the midst of this crisis.

A copy of the FY 2021 Preliminary Budget book is attached (Attachment A), along with Budget Slide Presentation (Attachment B), and a copy of the Agenda Sheet for the April 8, 2020 Special Meeting with attachments (Attachment C).

The table below is a summary of the FY 2021 Preliminary Budget that reflects directions received from the Board:

	Adjusted Budget FY 2020	Preliminary Budget FY 2021	Change FY 2021-2020 Budget	% Change
Revenue				
Operating	\$ 192.8	\$ 152.9	\$ (39.9)	(20.7%)
Non-Operating	22.2	12.8	(9.4)	(42.5%)
Total Revenue	\$ 215.0	\$ 165.7	\$ (49.3)	(22.9%)
Expenses				
Personnel	\$ 103.4	\$ 101.7	\$ (1.7)	(1.6%)
Non-Personnel	75.2	56.7	(18.5)	(24.6%)
Major Maintenance Expense	0.7	0.5	(0.1)	(21.5%)
Capitalized Labor	(4.0)	(2.2)	1.8	(44.9%)
Total Expenses	\$ 175.2	\$ 156.7	\$ (18.5)	(10.6%)
Other Sources & Uses and Reserves*	\$ (37.7)	\$ (9.0)	\$ 28.8	(76.3%)
Unrestricted Sources Over Uses of Funds	\$ 2.0	\$ 0.0	\$ (2.0)	(100.0%)

Note:

* Please see Section 1 page 12 of the Budget Book for details of Other Sources & Uses and Reserves

Revenues:

Staff developed revenue forecasts from the ground up, tenant-by-tenant, and from top down using the best available information based in part on industry information, information provided by our tenants and partners, and the number of current District tenants that have temporarily closed due to the COVID-19 pandemic. Total Revenues for FY 2021 are projected to be \$49.3M lower than prior year's budget.

Details and highlights on these revenue categories are included in Attachment A - FY 2021 Preliminary Budget Book.

Expenses:

Staff have looked at reductions line-by-line for all District expenses as staff does its best job to balance District spending with various revenue reduction scenarios. Staff identified significant expense reductions and prepared some across-the-board percentage cuts in non-personnel expenses, major maintenance, equipment and other capital projects, technology management, and a variety of other programs. Staff also re-prioritized some expenses in order to find funding for those programs that the Board wanted to continue to pursue such as Clean Air program, the Port Master Plan Update (PMPU), homeless outreach, and some of the Blue Tech projects that could be a source of future revenue stream.

Personnel: Personnel Expense budget for FY 2021 is budgeted at \$101.7M, \$1.7M lower

than the prior FY. The following cost-saving measures are being implemented quickly, as these do not require a meet and confer process with our collective bargaining units:

- Released all interns and all temporary employees;
- Stopped hiring for all vacant positions except dispatcher positions;
- Reduced overtime;
- Two percent (2%) pay-cut for all unrepresented employees with annual salaries of greater than \$75,000;
- No salary increases/cost of living adjustments (three percent (3%) increase) for all unrepresented employees;
- No merit increases for all unrepresented employees; and
- Unfunded 25 vacant regular positions of the 585 budgeted.

As we continue to monitor finances throughout the year, some additional strategies and measures may be implemented as needed.

Non-Personnel Expenses: A philosophy was applied in expense-reductions that includes meeting our regulatory requirements, proactively postponing events based on the existing public health directives in place, reducing our dependency on consultants, moving as much work as feasible in-house, extending project schedules or deferring work as a means to reduce costs (while not losing the value we have already invested in many of these programs and projects) and advancing the various projects that were originally planned for FY 2021, including strategic and other major mission-critical projects.

Other Sources and Uses of Funds:

This section includes other special funding sources and capital expenditures such as Major Maintenance, Technology, Equipment Outlay, and Debt Service. Details and highlights on this section are included in Attachment A - FY 2021 Preliminary Budget Book and Attachment C - Agenda Sheet for April 8, 2020 Special Meeting with attachments.

RESOLUTION TO REDUCE THE FY 2019-2023 CAPITAL IMPROVEMENT PROGRAM (CIP) BY \$5.7M AND ALLOCATE THE FUNDS TO THE CUMULATIVE UNRESTRICTED RESOURCES

The CIP includes approximately \$5.7M of funding for projects that could be delayed and instead transferred to the Unrestricted Cumulative Resources. The Board directed staff to include this action in the Preliminary FY 2021 Budget at the April 8, 2020 Board meeting. Details and list of projects are included in Attachment C - Agenda Sheet for April 8, 2020 Special Meeting with attachments.

RESOLUTION AUTHORIZING THE USE OF CUMULATIVE UNRESTRICTED RESOURCES OF APPROXIMATELY \$15.7M FOR THE FOLLOWING: OPERATING BUDGET DEFICIT \$9.9M, COAST GUARD BUILD-OUT \$2.2M, SEAPORT VILLAGE PRE-APPROVED FUNDING \$2.8M, AND MAJOR MAINTENANCE MULTI-YEAR PROGRAM CARRYOVER FUNDING OF \$0.8M

The Board directed staff to use Unrestricted Resources to fund the Operating Budget Deficit of \$9.9M

in the Preliminary FY 2021 Budget at the April 8, 2020 Board meeting.

The Coast Guard Build-Out \$2.2M is an investment for improvements to secure a long-term lease at the National Distribution Center (NDC). The US Coast Guard's Maritime Security Response Team (MSRT) is an anti-terrorism team established to protect local maritime assets and provides rapid waterborne and shoreside anti-terrorism protection for strategic shipping, high interest vessels and critical infrastructure. The Coast Guard has identified NDC as their preferred location for MSRT West operations and is requesting a new 10-year lease with one, three-year option at NDC. The proposed new lease would generate more than \$615,000 of incremental new revenue to the District annually with an internal rate of return of approximately 38% over the initial ten years. Additionally, the lease would solidify a long-term, maritime dependent use at NDC with a valuable partner.

Consistent with the General Services Administration standard process, the lease requires the landlord to design, initially fund and construct the improvements on behalf of the tenant. The build-out of the Coast Guard facility is estimated to cost \$2.2 million dollars of which approximately \$1.5M would be reimbursed by the Coast Guard and approximately \$650,000 would be paid for by the District. Given the strong return on our investment and the ability to secure a long-term maritime tenant, staff included this in the FY 2021 Equipment Outlay and Other Capital Projects budget.

Seaport Village pre-approved funding \$2.8M is a roll-over from prior year for investment spending towards tenant improvements. Of this \$2.8M approximately \$1.2M has already been committed to existing tenants. In order to be competitive in the specialty retail center market, the tenant improvement funding is necessary to attract and secure leases with high caliber tenants and positive returns on its investment. Tenant improvement allowance funding is standard of retail landlords and without it the District would be unable to secure new market rate deals with prospective tenants.

Major Maintenance (MM) Multi-year program carryover funding of \$0.8M is for projects already approved in the prior year for the multi-year MM program.

Board Policy No. 117, the Operating Reserve Policy, establishes the operating reserve balance and defines the calculation of the amount required. The Policy also states that uses of the operating reserve balance can be authorized by the Board if *"Temporarily needed as a result of unfavorable financial performance due to the impact of an unfavorable economic environment."*

RESOLUTION NOT TO SOLICIT PROJECT APPLICATIONS OR HOLD A CIP WORKSHOP IN FY 2021:

FY 2021 marks the third year of the CIP's 5-year cycle that will extend to FY 2023. At the beginning of FY 2021, the CIP budget is projected to be \$14.7M. This amount will be reduced by \$5.7M for transfer to Cumulative Unrestricted Reserves to help fund the FY 2021 operating budget and the remaining \$9.0M will fund project expenditures during FY 2021. 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. Until the CIP is fully funded, staff recommends the Board not solicit project application forms or hold a CIP workshop in FY 2021.

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 this agenda and attachments as presented to it, and approves the same as to form and legality.

Environmental Review:

The proposed Board actions, including without limitation, resolutions adopting the FY 2021 Preliminary Budget and setting the date for public hearing on the budget, reducing the FY 2019-2023 CIP budget and allocating the funds to the cumulative unrestricted resources, authorizing the use of cumulative unrestricted resources, and maintaining the FY 2019-2023 CIP budget and to not solicit project applications or hold a CIP workshop, 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 the Board's actions 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 actions in no way limit the exercise of this discretion. Therefore, no further CEQA review is required.

The proposed Board actions comply with Sections 20, 21, 35, 46, 47, and 86 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 which allow the Board to transfer amounts from one appropriated item to another in the budget allowance, 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 actions are consistent with the Public Trust Doctrine.

The proposed Board 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 actions in no way limit 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
Chief Financial Officer/Treasurer

Attachment(s):

Attachment A: FY 2021 Preliminary Budget Book

Attachment B: Budget Slide Presentation

Attachment C: Budget Agenda Sheet April 8, 2020 with attachments