File #: 2020-0239, **Version:** 1

DATE: October 6, 2020

SUBJECT:

A) MONTHLY REPORTING OF FINANCIAL RESULTS AND DIRECTION TO STAFF

B) ADOPT RESOLUTION TO WAIVE BOARD OF PORT COMMISSIONER POLICY NO. 117 (BPC NO. 117) - OPERATING RESERVE POLICY TO BE BELOW THE REQUIRED FY 2021 BALANCE OF $61.8M AND AUTHORIZE STAFF TO USE THE DIFFERENCE NOT TO EXCEED $10.5M TO FUND THE FY 2021 PROJECTED DEFICIT

EXECUTIVE SUMMARY:

As a result of the COVID-19 pandemic, staff currently estimates a significant loss in revenue across almost every major revenue category for the District and expects revenue losses to continue through FY 2021. Unlike many public agencies, the District receives no tax funds to help stabilize revenues in the midst of this crisis. While staff continues to talk to the State of California and the federal government to seek economic relief, the District must take prudent steps to manage our budget in these uncertain economic times.

At the March Board meeting after a report out on the magnitude of the coming fiscal emergency due to the pandemic, Chair Moore created the 2020 Budget Impact Ad Hoc Committee (Ad Hoc) that was comprised of the Executive Committee of the Board to proactively address the financial impacts of the COVID-19 crisis. The Executive Committee includes Chair Ann Moore, Vice Chair Michael Zucchet, and Secretary Dan Malcolm.

Due to continued uncertainty with the local, regional, state, and federal economies, staff will continue to work with the Ad Hoc and the full Board and will provide monthly reporting to monitor the District's financial performance against the budget. The monthly reporting will be presented to the full Board at the October 2020 Board meeting. This will enable us to respond to changing economic conditions in connection with the COVID-19 pandemic. A number of measures have been taken to reduce expenses through the remainder of FY 2021.

In addition, at the September 2020 Board meeting, staff presented a revised revenue forecast based on events that have occurred in relation to Covid-19 pandemic such as cancellation of conventions, and business and group events. Since adoption of the budget, staff has been continuously monitoring the revenue forecast and has now revised the forecast using the best available information based on events that occurred such as cancellation of conventions, lack of business travel / group events, conversations with industry experts and economic and hospitality consultants, information gathered from numerous conversations with tenants representing each segment of the portfolio and partners such as the San Diego Tourism Authority, and data assembled from the portfolio's performance since the beginning of the COVID-19 pandemic.

Based on staff's reforecast, FY 2021 total revenues will be lower than budget by approximately $16M. Staff immediately worked to identify further reductions in expenditures including Personnel, Non-Personnel expenses, Equipment and Other Capital Outlay, Technology Management Program, and Major Maintenance. With the reductions in expenditures, the $16M deficit was mitigated down to $8.2M.

Additionally, the forecasted FY 2020 results of a deficit of $9.9M will have an additional $1.34M (rounded to $1.5M) deficit resulting from finalizing negotiations with Seaport Village tenants as directed by the Board at its June 23, 2020 meeting to address the Covid-19 negative impact on the tenant's business.

In response to Board directions at the September 10, 2020 Board meeting, staff will propose a resolution at the October 6, 2020 Board meeting to waive BPC No. 117 - Operating Reserve Policy to be below the required FY 2021 balance of $61.8M, and authorize staff to use the difference not to exceed $10.5M to fund the FY 2021 projected deficit.

The Board expressed an interest for the District to have a plan to replenish reserves in the future. Staff will continue to build future budgets with structural surpluses to enable replenishment of the reserves. This strategy could include the continuation of vacancy management, deferral of non-critical equipment and major maintenance expenditures, reduction in non-essential and other expenditures, and continue to pursue revenue generating opportunities. Additionally, there is a chance for federal or state funds to become available for Port Covid-19 related impacts.

For more details of the September 10, 2020 presentation approved by the Board, please see Attachment 1: FY 2021 Reforecast

RECOMMENDATION:

A) Accept staff's financial report update and direction to staff.

B) Adopt resolution to waive BPC No. 117 - Operating Reserve Policy to be below the required FY 2021 balance of $61.8M and authorize staff to use the difference not to exceed $10.5M to fund the FY 2021 projected deficit.

FISCAL IMPACT:

A) This proposed Board action has no fiscal impact.

B) This proposed Board action will reduce the required FY 2021 Operating Reserve $61.8M balance by up to $10.5M to fund the FY 2021 projected deficit.

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.
- Not applicable.

DISCUSSION:

During the FY 2021 budget development process that began in March, staff prepared and presented in multiple Board meetings, three detailed scenarios reflecting the financial impact of the COVID-19 pandemic, entitled Worse Case, Base Case, and Better Case based on information available at that time, and with a lot of uncertainties. The Board adopted the FY 2021 budget using the Base Case scenario.

This COVID-19 pandemic is a perfect storm that caused projected District revenues to fall in several areas.

At the September 2020 Board meeting, staff presented a revised revenue forecast based on events that have occurred in relation to COVID-19 pandemic such as cancellation of conventions, and business and group events. Since adoption of the budget, staff has been continuously monitoring the revenue forecast and has now revised the forecast using the best available information based on events that occurred such as cancellation of conventions, lack of business travel / group events, conversations with industry experts and economic and hospitality consultants, information gathered from numerous conversations with tenants representing each segment of the portfolio and partners such as the San Diego Tourism Authority, and data assembled from the portfolio’s performance since the beginning of the COVID-19 pandemic.

Based on staff’s reforecast, FY 2021 total revenues will be lower than budget by approximately $16M. Staff immediately worked to identify further reductions in expenditures including Personnel, Non-Personnel expenses, Equipment and Other Capital Outlay, Technology Management Program, and Major Maintenance. With the reductions in expenditures, the $16M deficit was mitigated down to $8.2M. The Board approved staff’s recommended expenditure reductions, and directed staff to use the Operating Reserves to fund the deficit.

Additionally, the forecasted FY 2020 results of a deficit of $9.9M will have an additional $1.34M (rounded to $1.5M) deficit resulting from finalizing negotiations with Seaport Village tenants as directed by the Board at its June 23, 2020 meeting to address the Covid-19 negative impact on the tenant’s business.

The District continues to maintain a healthy level of operating reserves to weather significant economic downturns more effectively and manage the consequences of unexpected emergencies. Operating reserves generate investment income, provide a margin of safety and stability to protect the District from exposure to catastrophic events and economic impacts, and provide flexibility to pursue emergent opportunities. The District's BPC Policy No. 117 - Operating Reserve Policy, in general, calls for a cash reserve of 50.0% of budgeted operating and maintenance expenses reduced by certain revenue sources. The balance is established annually upon the adoption of the fiscal year budget. The FY 2021 required operating reserve balance is $61.8M established upon adoption of the FY 2021 budget. The operating reserve includes a $20 million minimum required balance established for the purpose of self-insurance against possible losses that could occur as the result of a catastrophic event. The policy also includes authorized uses for specific purposes, if needed. Please see Attachment 2: BPC No. 117 - Operating Reserve Policy.

In response to Board directions at the September 10, 2020 Board meeting, staff will propose a resolution at the October 6, 2020 Board meeting to waive BPC No. 117 - Operating Reserve Policy to be below the required FY 2021 balance of $61.8M, and authorize staff to use the difference not to exceed $10.5M to fund the FY 2021 projected deficit.

The Board expressed an interest for the District to have a plan to replenish reserves in the future. Staff will continue to build future budgets with structural surpluses to enable replenishment of the reserves. This strategy could include the continuation of vacancy management, deferral of non-critical equipment and major maintenance expenditures, reduction in non-essential other expenditures, and continue to pursue revenue generating opportunities. Additionally, there is a chance for federal or state funds to become available for Port Covid-19 related impacts.

Staff will continue to report each month any significant variances between the projections and the actual performance.

For more details, please see Attachment 1: FY 2021 Reforecast

General Counsel's Comments:

The Office of the General Counsel has reviewed this agenda sheet and attachments as presented to it and approve the same as to form and legality.

Environmental Review:

The proposed report of financial results does not constitute a "project" under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 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 report 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 proposed report in no way limits the exercise of this discretion. Therefore, no further CEQA review is required.

The proposed Board action, including without limitation, adoption of a resolution waiving Board of Port Commissioner Policy No.117 and authorizing staff to apply difference and remaining cumulative unrestricted resources to the Fiscal Year 2021 projected deficit, does not constitute a “project” under the definition 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 proposed Board 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 proposed Board action in no way limits the exercise of this discretion. Therefore, no further CEQA review is required.

The proposed Board action complies with Sections 21 and 35 of the Port Act, which 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 report 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 proposed report 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(s):
Attachment A: FY 2021 Reforecast
Attachment B: BPC No. 117 - Operating Reserve Policy