PORT OF OAKLAND

7/10/2025

AGENDA REPORT

<u>PROPOSED ACTION</u>: Resolution: Approval of the Annual Operating and Capital Budgets for Fiscal Year Ending June 30, 2026; Authorize the Payment of Operating and Other Expenses, the Payment of Debt Service of the Port for the Fiscal Year Ending June 30, 2026; Authorize the Payment of $243,280,000 of Total Capital Expenditures, as Provided in the Capital Budget for the Fiscal Year Ending June 30, 2026; Authorize FY 2025 Carryover Spending in FY 2026; Authorize Transfers Between Operating and Capital Budgets Due to Changes in Accounting Treatment; and Finding that the Proposed Action is Exempt Under the California Environmental Quality Act. **(Finance & Admin)**	
Submitted By: Julie Lam, Chief Financial Officer; Kristi McKenney, Executive Director	
Parties Involved: None	Amount: As presented below and in the Budget Summary (Attachment A)
<u>EXECUTIVE SUMMARY</u>: Each year the Port of Oakland (Port) prepares an annual proposed budget for the Board of Port Commissioners' consideration for approval. By approving the operating and capital budgets presented, the Board would authorize (a) the payment of operating and other expenses, (b) the payment of debt service of the Port, and (c) the payment of approximately $243,280,000 of total capital expenditures. This agenda report further requests the Board to authorize FY 2025 carryover spending into FY 2026 and authorize transfers between operating and capital budgets due to changes in accounting treatment.	

BACKGROUND & ANALYSIS

The Charter of the City of Oakland (City), as amended, requires the Port to adopt an annual budget no later than the third Monday of July each year.

Port Staff developed the following documents related to the Port's annual budget:

- One-year operating budget for fiscal year ended June 30, 2026
- One-year capital budget for fiscal year ended June 30, 2026
- Five-year operating and cash flow projections for FY 2026 through FY 2030
- Five-year Capital Improvement Plan (CIP) for FY 2026 through FY 2030

The Budget Summary is included as Attachment A and contains these documents, as well as other related information such as the Port's staffing plan, division-specific operating budgets, debt service payments, cash flow projections, Board reserve amounts, and capital project descriptions.

In addition to the July 10, 2025 budget presentation, Port Staff has made budget presentations to the Board on March 27 and May 8, 2025. Copies of these presentations are included as Attachment B.

Only the FY 2026 operating and capital budgets are presented for Board approval. Subsequent years of operating expenses, capital expenditures and cash flow projections are informational and presented for planning purposes only.

The information contained in this Agenda Report is disclosed publicly for general information relating to the Port only. The information and figures herein include projections and forecasts that are based upon certain assumptions and involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance or achievements to differ materially from those expressed or implied by such projections and forecasts. The information and figures herein are subject to change without notice after the date hereof. The overall cost of the Port's capital projects is subject to change, and the variance from the cost estimates reflected herein may be material. The Port is not obligated to and does not plan to issue any updates or revisions to this Agenda Report nor the Budget Summary.

Budget Objectives

The Port's operating and capital budgets aim to (a) support long-term financial strength, resiliency and sustainability, (b) address immediate operational, recruitment and financial challenges while maintaining flexibility and liquidity against operational, financial, political and economic uncertainties, and (c) strategically identify, prioritize and plan major capital projects focused on regulatory compliance, grant project delivery commitments, zero emissions progress, health and safety, revenue generation, asset management, and essential infrastructure investments. Key financial objectives include:

- Develop a balanced budget in which total sources of funds equal or exceed total expenditures;
- Develop an operating budget that targets a minimum debt policy debt service coverage ratio (DSCR) of 1.40x in the aggregate and by revenue division;
- Maintain a minimum General Fund cash balance at the end of each fiscal year or by the end of the five-year projection period equal to approximately 400 days-cash-on-hand (DCOH) Port wide, and between 300 to 500 DCOH by revenue division, taking into account future anticipated needs such as capital improvements and accrued liabilities;
- Target a maximum operating expense ratio of 65.0% or less across the Port and within each revenue division (except Utilities) by fiscal year or by the end of the five-year projection period. If achieving this target requires more than five years, projections over the next five fiscal years should demonstrate annual progress toward the goal;

- Maintain Board reserves at levels consistent with Port policy of approximately $82.5 million; and
- Maintain discipline of paying down outstanding bonds and commercial paper notes.

Key Factors

The FY 2026 operating and capital budgets were developed taking into account several key factors highlighted below, as well as updated five-year operating and cash flow projections and an updated five-Year CIP.

Positive Factors

- **Liquidity and Financial Flexibility.** The Port's strong liquidity position comprised of unrestricted cash and Board reserves provides financial flexibility to adapt to unanticipated challenges. In the event of a catastrophic event, it is projected cash and cash equivalent balances at the beginning of FY 2026 will be sufficient to cover 661 days of operations at the Port in the absence of operating revenues.
- **Existing Credit Facilities.** The Port maintains a $200 million direct pay letter of credit (LOC) facility in support of its commercial paper (CP) program. As of June 1, 2025, $17.5 million in CP remains outstanding. The LOC, expiring on December 31, 2026, allows the Port to fund interim capital expenditures before issuing long-term revenue bonds.
- **Debt Management.** As of July 1, 2025, 96% of the Port's outstanding debt is fixed rate. Exposure to short-term interest rate fluctuation is present in the form of CP which accounts for 4% of the Port's overall debt portfolio. By matching assets (General Fund investments) and liabilities (CP) with similar interest rate sensitivities, the Port is able to hedge 100% of variable rate risk on its CP debt outstanding.
- **Credit Ratings.** The Port maintains strong long-term credit ratings: A1 from Moody's, and A+ from both S&P and Fitch for senior lien bonds, with intermediate lien bonds rated one notch lower. Strong credit ratings allow the Port to borrow at attractive rates in the market.
- **Economic Support and Operations.** The Port benefits from a strong local and diverse economy, serving as a key gateway for trade and a top travel destination, with a large share of Oakland Airport (OAK or Airport) traffic being origin and destination, and significant maritime cargo destined for or from greater California markets.
- **Minimum Annual Guarantees and Rent Escalation.** Many of the Port's lease agreements with tenants include minimum annual guarantee (MAG) provisions, fixed rent and/or structured annual rent escalation clauses. These MAG or fixed

rent are required to be paid regardless of activity, except in very limited circumstances. These provisions provide the Port with a certain level of revenue predictability during a period of economic uncertainty.

- **Grant Funding and Infrastructure.** Approximately 33.6% of the FY 2026 Capital Budget is expected to be funded with grants. Some of these grants come in the form of entitlement grants which the Port receives an allocable share while other grants are discretionary and require the Port to compete against other ports and airports for funding. Most grants available are for port infrastructure improvements in areas to support transition to the zero emission operations and to address supply chain challenges. Grant seeking efforts in FY 2026 will target funding for projects in the five-year CIP. If successful, newly awarded grants will reduce the dollar amount of capital projects funded with either Port cash or future debt issuances.
- **PFC Application Approval**. As of April 30, 2025, the Port's Passenger Facility Charge (PFC) fund balance stands at $71.3 million. Currently, the use of these funds is restricted to payment of financing costs for select FAA-approved terminal projects originally funded with commercial paper proceeds. FAA approval of PFC-18 application, projected to occur in early FY 2026, will allow the Port to draw on a portion of the $71.3 million fund balance to reimburse for eligible costs of completed capital projects, as well as fund eligible capital projects currently in design or under construction. This will, in turn, release additional unrestricted cash that can be redirected to support other Port capital priorities.
- **Debt Service Coverage Ratio.** The Port projects a stable Intermediate Lien Debt Service Coverage Ratio (DSCR) of 2.08x for FY 2025, with projections ranging between 2.00x and 2.07x over the next five fiscal years. These projections reflect key assumptions, including annual passenger growth at the Airport of 2.0% starting in FY 2027, continued growth in Twenty-foot Equivalent Unit (TEU) cargo volume at the Oakland Seaport (Seaport), increased electricity demand and electric rate increases, and declining vacancies across the Port's commercial real estate portfolio of assets. In addition, the Port actively manages operating expenses and the scope and timing of its five-year CIP to ensure compliance with its minimum Port debt policy DSCR of 1.40x – by individual business line and on a Port wide consolidated basis.
- **Airport Cost Competitiveness.** The Airport's projected cost per enplanement (CPE) of $18.80 in FY 2026 remains competitive with San Jose Mineta International Airport ($18.34), Sacramento International Airport ($18.69), and San Francisco International Airport ($26.55). Having a competitive CPE in a region with multiple airport options is crucial for attracting airlines and maintaining passenger traffic.

- **Food and Retail Concession Improvements.** The Airport is in the midst of an extensive program to renovate retail/food and beverage offerings in order to provide passengers options and improve the overall passenger experience inside the terminal buildings. To date, 13 food and beverage units are now open, with the District scheduled to open by end of this summer. For the retail program, seven units have opened in the past year, with another four currently under construction; all of which are scheduled to be open by end of this summer.
- **Demographic Shifts.** Migration out of urban city centers in San Francisco to the East Bay and into OAK's primary catchment area bodes well for passenger growth at the Airport as new East Bay residents switch from using SFO to OAK as their primary airport for domestic travel. In particular, the Tri-Valley area which encompasses the cities of Dublin, Livermore, Pleasanton, San Ramon, town of Danville, and Census Designated Places of Alamo, Blackhawk, and Diablo have experienced very large population growth in recent years as companies relocate to this geographical area of the East Bay.
- **Maritime Operations.** Most if not all seaports in the United States, including the Seaport, have been adversely impacted by the uncertainties surrounding tariffs on imports and exports. However, in relative terms, the Seaport may be better positioned than other U.S. West Coast seaports in terms of cargo volumes due to a number of factors including (a) a previously out-of-service berth during construction at Oakland International Container Terminal (OICT) has been returned to operation after being offline for most of FY 2025, (b) the planned closure of the Vincent Thomas Bridge at the Ports of Los Angeles and Long Beach on December 1, 2025, is expected to result in cargo diversion to the Seaport, (c) change in laws to impose a Harbor Maintenance Tax plus 10% administrative fee on cargo entering Canada or Mexico but destined to the United States is expected to redirect cargo volumes to U.S. West Coast Ports, including the Seaport, (d) increased cargo volumes from other Asian countries are expected as tariff disputes with China are addressed, (e) the Port's relative limited exposure to discretionary cargo diversion compared to other U.S. West Coast ports, and (f) a growing number of tariff exemptions mitigating the impact of broader trade restrictions.
- **Land Redevelopment Opportunities:** While not expected to impact FY 2026 operating revenues, Port Staff will continue to evaluate proposals from outside developers and organizations in the redevelopment of Howard Terminal with the potential to generate future revenue and further diversify the Port's income stream. Additionally, the planned redevelopment of previously leased properties, such as the former Hilton hotel site near the Airport, will allow the Port to potentially secure new leases at or near market rates, enhancing both future revenue potential and portfolio diversification.

Concerns and Considerations

- **Personnel Costs.** Other than a 1.0% increase from step increases, no cost-of-living adjustment (COLA) is assumed in FY 2026 following the expiration of labor memorandum of understanding (MOU) contracts with all four labor unions on September 30, 2025 (the last COLA was made on January 1, 2025). Any COLA increase above the 0% assumed, if not offset by savings resulting from the time required to ramp staffing from current level of 476 FTEs to 504.5 FTEs (Full FTEs *less* vacancy factor) or in the absence of better than budgeted revenues or lower operating expenses, may necessitate a mid-year adjustment to Port wide operating expenses to maintain compliance with the Port's minimum debt service coverage targets as outlined in the Port's recently amended debt policy. A vacancy factor of 29.5 FTEs is assumed in FY 2026 based on recruitment capacity and potential additional vacancies created by retirements during FY 2026 in addition to eliminating sixteen vacant positions previously budgeted in FY 2025.
- **Capital Costs.** The proposed FY 2026 capital budget includes $243.3 million in planned capital expenditures. Over the five-year planning horizon, known capital expenditures total approximately $1.4 billion. These project cost estimates are based on the best available information today and are refined further as projects progress through key design completion milestones. Current construction market conditions remain highly volatile, influenced by factors such as tariff uncertainties. Recent bids for some Port projects have significantly exceeded earlier estimates, raising concerns that the costs reflected in the five-year CIP may not fully capture the true cost of project delivery. If cost increases for one project are not offset by cost savings on others, the Port may be required to delay, reduce the scope of, or remove certain projects altogether as part of its prioritization process.
- **Debt Borrowing Costs.** Short-term interest rates may remain elevated if inflationary pressures persist, particularly those driven by tariffs, forcing the Federal Reserve Bank to maintain or raise Fed Fund rates. Additionally, concerns over the federal deficit, the ongoing negotiations around federal spending and potential multi-trillion dollar increase to the federal debt could lead to a loss of confidence and in turn a bond market sell-off potentially to a degree that surpasses the 6.0% borrowing cost currently assumed to fund a portion of the Port's five-year CIP. In FY 2026, the immediate impact of higher short-term rates is limited to interest paid on the Port's commercial paper program. However, this exposure to higher short-term interest rates is offset by increased interest earnings on Port General Fund short-term investments held with the City.

- **Operating Expense Ratio and Profitability.** While the Port and each of its four business lines continue to generate positive cash flow from operations, Port-wide financials are projected to show an operating loss in both FY 2026 and FY 2027 when accounting for depreciation and amortization. This loss is primarily driven by substantial projected operating deficits within the Aviation division. Achieving profitability on an accounting basis in the Aviation division and Port-wide will require a combination of revenue growth and operating expenses management.
- **Airport Activity and Airplane Manufacturing Issues.** The number of flights and available seats at OAK are expected to decrease in FY 2026 due to continued delays in new Boeing aircraft deliveries to Southwest Airlines, softer domestic travel demand and overall changes in airline scheduling to more profitable routes. The enplaning passenger forecast for FY 2026 is expected to be 10.0% lower than anticipated actual FY 2025 level.
- **Southwest Airlines Value Proposition.** In FY 2024, Southwest Airlines accounted for 78.3% of total enplanements at OAK. In recent months, the company has begun transitioning away from its long-standing practices, aligning more with practices seen with existing legacy carriers. Notable changes include the introduction of checked baggage fees, reintroduction of expiration dates on flight credits, and plans to phase out its open-seating policy. While these changes may enhance Southwest Airlines' activity levels and revenues, there is uncertainty they may not which could result in loss of activity and revenue for the Airport.
- **Business Travel.** Prior to the COVID-19 pandemic, business travel up and down the "California Corridor" was a key driver of passenger growth at OAK. Since the pandemic, the widespread adoption of virtual meetings as an alternative to in-person meetings and the shift toward permanent or flexible remote work arrangements have fundamentally altered demand for business travel. As a result, business travel has yet to recover and continues to lag behind leisure travel, which itself is projected to soften in FY 2026 due to economic uncertainty.
- **Airfreight Volume.** Cargo volume at OAK may be impacted by current import tariff regulations including cancellation of tariff-free access to low-value parcel shipments from China and other Asian countries effective May 2, 2025, and potential reduction in shipment of high value items typically air freighted into the United States.
- **Inflation and Weakening Labor Market.** Inflation remains persistently high, continuing to elevate consumer prices for goods and services and erode purchasing power. At the same time, signs of a weaking labor market raise concerns about the financial stability of the strong and diverse consumer base that underpins Port operations. Reduced disposable income, discretionary spending, and growing economic uncertainty may dampen consumer demand for

discretionary air travel and reduce spending on goods, potentially leading to lower enplanements at the Airport, and a decline in cargo volumes at the Seaport.

- **Ongoing Tariffs Uncertainty.** The escalating tariff war continues to create significant uncertainty for global trade in general and poses a risk to the Seaport's throughput for FY 2026. The imposition and frequent revisions of tariff rates on imported goods, particularly with key trading partners in Asia, can discourage shipping activity, delay orders, and shift trade routes away from the Seaport. All else being equal, prolonged tariff uncertainty may reduce cargo volumes and reduce overall container throughput at the Seaport, potentially impacting Maritime division revenues.
- **Regulatory Compliance and Contractually Obligated Maintenance.** A large portion of the Port's capital and operating expenses in FY 2026 will go towards meeting regulatory requirements, completing grant-funded capital projects, maintenance work, some of which are contractually obligated under existing lease agreements, and reducing Port Staff vacancies. The Port is reviewing processes but delivering all planned projects remains a challenge. Failure to upgrade aging infrastructure or invest in zero emission infrastructure to meet future air quality and emission reduction goals and regulatory guidelines has the potential to impact Port operations and the Port's ability to generate revenues in the future.
- **Climate-Related Federal Grant Clawback.** Since January 2025, the current federal administration has taken actions to cancel or freeze various climate-related programs grant programs, particularly those established under the Inflation Reduction Act and the Infrastructure Investment and Jobs Act. These actions have prompted many legal challenges. To the extent some of the Port's grant awards are frozen or canceled, the timeline to convert Seaport operations to zero emission cargo handling operations may be significantly impacted. Furthermore, the Port's ability to fund certain capital projects within the current schedule may not be achievable given the heavy reliance on grants as a critical funding source.
- **Maritime CIP.** A large percentage of Maritime's CIP in FY 2026 focuses on utility-related improvements and marine terminal improvements aimed at addressing aging infrastructure and keeping facilities in working condition to support Maritime's core revenue generating businesses. However, limited debt capacity and constrained capital resources are available, in part due to the debt burden carried by Maritime through FY 2033 when the last of the bonds issued to fund Vision 2000 will be paid off. Increasingly challenging, are partially grant funded projects with fixed award amounts and completion deadlines. As project designs are completed and construction bids come in higher than expected, the Port must cover any cost overruns, placing additional strain on Maritime's ability to fund other

equally if not more critical infrastructure needs within the current timeline such as work to repair delamination at several key wharf locations.

- **Electrification.** Electrification of Port and tenant businesses will necessitate major electric infrastructure investments to enhance system reliability and provide for additional peak capacity at both the Seaport and Airport. The long lead times for acquiring the necessary electric utility equipment to upgrade the Port's electric distribution system are of concern as these delays may hinder the Port's ability to meet on a timely basis its electrification goals.

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Proposed FY 2026 Budget

Table 1 summarizes the Port's proposed FY 2026 budget.

Table 1
Uses and Sources of Funds FY 2026
($000s)

	FY 2026 Proposed Budget
Uses of Funds	
Operating Expenses (Cash Basis)[1]	$297,066
Debt Service[2]	85,455
Capital Expenses	243,280
Other Expenses[3]	71,221
Transfer to Restricted Account	848
Total Uses	**$697,870**
Sources of Funds	
Cash from Operations	$435,148
Available Cash Reserves	69,325
Grant Reimbursement[4]	89,595
Passenger Facility Charges (PFCs)[5]	16,087
Interest Income	14,126
Commercial Paper/Debt	4,704
Other Revenues[6]	68,885
Total Sources	**$697,870**

[1] Excludes depreciation and non-cash adjustments to pension and retiree medical expense.
[2] Includes $7.3 million repayment of CP Notes and associated interest. Of this amount, approximately $2.4 million of CP Notes and associated interest is anticipated to be repaid with PFCs. The interest rate on the CP Notes is assumed to be 2.6% in FY 2026.
[3] Includes but not limited to CP Notes and bond related fees, General Services and Lake Merritt payments to the City, adjustment of Operating Reserve, and other non-operating expenses including non-operating pass-through expenses.
[4] The Port has not yet obtained grant funding for all capital projects included in the budget.
[5] Ability to apply PFCs to fund capital projects contingent on FAA approval of new PFC-18 application.
[6] Includes non-operating pass-through grants.

Table 2 shows a comparison of the proposed FY 2026 budget to the FY 2025 budget.

Table 2
Comparison of Proposed FY 2026 Budget to FY 2025 Budget
($000s)

	FY 2026 Proposed Budget	FY 2025 Budget	Change in Comparison to FY 2025 Budget
Operating Revenues	$417,349	$434,526	-$17,177
Operating Expenses before Depreciation	$299,734	$300,124	-$390
Operating Income before Depreciation	$117,615	$134,401	-$16,786
Operating Income	-$5,852	$24,146	-$29,998
Debt Service – Bonds	$77,630	$78,165	-$535
Debt Service – Commercial Paper (CP) Notes	$7,825	$8,232	-$407
Intermediate Lien Bond Debt Service Coverage Ratio	2.00x	2.17x	-0.17x
Capital Budget	$243,280	$246,248	-$2,968
Board Established Reserves	$82,467	$83,141	-$674
Full Time Equivalents (FTEs)	534	550	-16
Anticipated General Fund Balance Excluding Board Reserves on June 30	$476,485	$484,509	-$8,024

Activity Levels

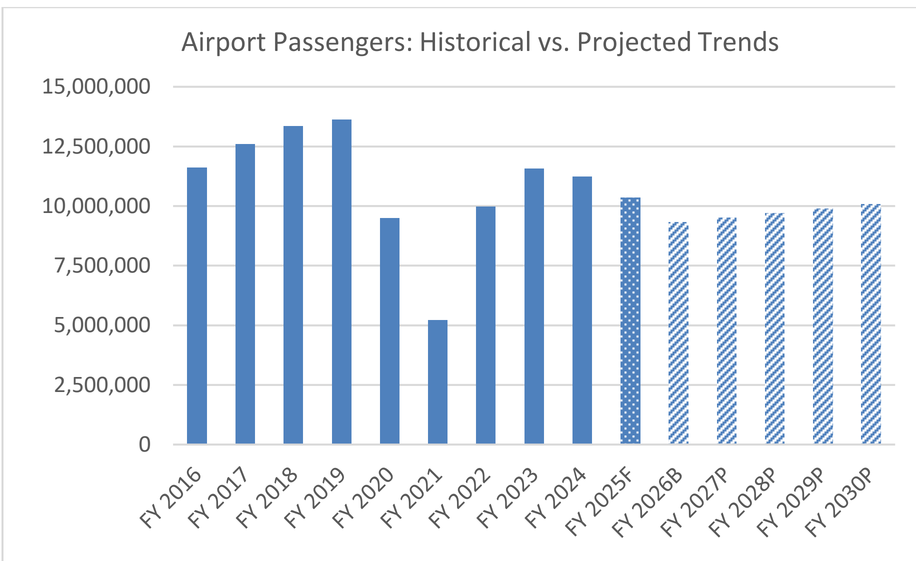
While activity levels are not directly correlated to Aviation and Maritime revenues, they are important indicators of the strength of these business lines. Airport passengers are anticipated to decrease 10.0% in FY 2026 from anticipated FY 2025 levels due to several factors including among others on-going capacity management challenges and demand volatility due to macroeconomic uncertainties (e.g. inflation) impacting overall consumer discretionary spending on travel given household budget pressures. Seaport Full TEUs are anticipated to increase 1.8% in FY 2026 over FY 2025 anticipated levels. Growth in TEUs assumes tariff-related uncertainties and concerns are resolved in the near future and the positive factors previously outlined above under “Maritime Operations” supporting TEU growth at the Seaport materialize as anticipated.

Table 3 shows FY 2024 actual, FY 2025 anticipated, and FY 2026 budgeted Airport passenger and Seaport Full TEU activity levels for comparison purposes.

Table 3
Airport Passenger and Seaport TEU Activity

	FY 2024 Actual	FY 2025 Anticipated	YoY Change	FY 2026 Proposed Budget	YoY Change
Airport Passengers	11,229,355	10,351,944	-7.8%	9,316,750	-10.0%
Seaport Full TEUs	1,697,527	1,677,471	-1.2%	1,707,115	+1.8%

For the FY 2027-2030 projection period, Airport passenger growth is assumed to grow by 2.0% annually. Seaport Full TEUs are assumed to grow 1.6% in FY 2027 and 1.0% annually in FY 2028 through FY 2030. The following charts show historical and projected Airport passengers and Seaport Full TEUs for FY 2016-2030.



Compound Annual Growth Rate
FY 2016-2019*: +5.4%, FY 2019*-2030 projected: -2.7%
***FY 2019 is the last full FY before the COVID pandemic**

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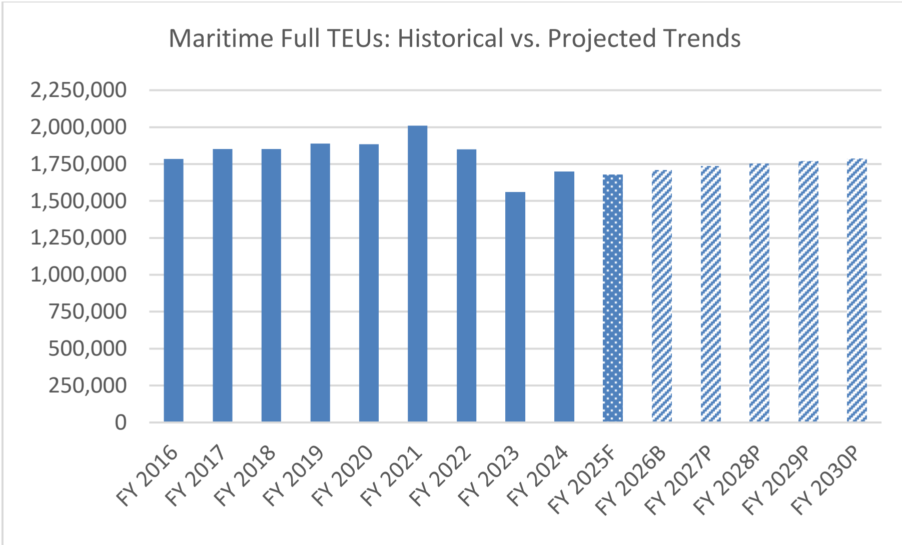

Compound Annual Growth Rate
FY 2016-2019*: +1.9%, FY 2019*-2030 projected: -0.5%
***FY 2019 is the last full FY before the COVID pandemic**

Operating Revenues

FY 2026 budgeted operating revenues of $417.3 million, are $17.2 million, or -4.0% lower than FY 2025 Budget. In comparison to FY 2025 anticipated operating revenues of $425.1 million, FY 2026 operating revenues are projected to decrease by $7.8 million or -1.8%. Table 4 shows FY 2024 actual, FY 2025 budget, FY 2025 anticipated, and FY 2026 budgeted operating revenues by business line for comparison purposes.

Table 4
Summary of Operating Revenues
($000s)

	FY 2024 Actual	FY 2025* Budget	FY 2025* Anticipated	FY 2026 Proposed Budget*	Change in Comparison to FY 2025 Budget	Change in Comparison to FY 2025 Anticipated
Aviation	$204,577	$212,810	$216,101	$211,169	-0.8%	-2.3%
Maritime	159,979	173,631	165,878	163,225	-6.0%	-1.6%
CRE	15,295	16,218	15,656	15,319	-5.5%	-2.2%
Utilities	27,886	31,867	27,511	27,637	-13.3%	+0.5%
Total	**$407,738**	**$434,526**	**$425,146**	**$417,349**	**-4.0%**	**-1.8%**

* Beginning in FY 2025, Utilities revenue includes Electricity only. Gas and Water & Sewage revenues are included in Aviation, and Maritime Revenues.

FY 2026 budgeted Aviation revenues assume (i) 10.0% decrease in passengers compared to FY 2025 anticipated actuals, (ii) higher terminal rental revenues due to net increases in year-over-year terminal cost center capital and operating expenses including higher custodian, personnel and utilities costs, (iii) higher airfield cost center revenues in comparison to FY 2025 anticipated actuals due to true-up charge of $2.2 million from under-collection in FY 2024, and increases in FY 2026 capital and operating expenses in the airfield area, (iv) lower parking revenues due to decrease in passenger traffic at the Airport, and (v) higher space rental revenues reflecting rent increase adjustments pursuant to existing and anticipated lease terms. Terminal concession revenues are expected to decrease from FY 2025 anticipated actuals due to delays in the build-out of space by the new retail concessionaires operating at the Airport and decline in passenger traffic.

FY 2026 budgeted Maritime operating revenues assume Full TEUs are 1.8% higher and Empty TEUs are 1.0% higher in comparison to FY 2025 anticipated actuals. Maritime revenues are based on several factors: a near-term resolution of tariff issues; full recovery from the initial cargo volume decline following tariff announcements; expected growth in changes in tariff regulations and cargo diversions from other U.S. West Coast ports; anticipated shifts in cargo between marine terminals; scheduled rent increases; and the full-year impact of new tenancies that began in FY 2025.

FY 2026 budgeted CRE revenues assume lower parking, restaurant, hotel, retail and office rents.

FY 2026 budgeted Utilities revenues are based on planned electric rate increases and anticipated decreases in pass-through revenues and revenues from sale of electricity to existing Port tenants and new tenants; both a result of lower overall demand.

FY 2027-2030 Operating Revenue Projections

Port-wide operating revenues are projected to increase from $417.3 million in FY 2026 to $488.6 million in FY 2030, for a forecasted compound annual growth rate of 4.0% based on a number of assumptions including, but not limited to: passenger recovery and TEU growth rates, changes in Airline rates and charges, changes in transportation mode to and from the Airport, Maritime tariff increases, lease revenues based on existing and anticipated lease terms, and increased electricity usage and rates. The following chart shows historical and projected revenues by business line for FY 2016-2030.

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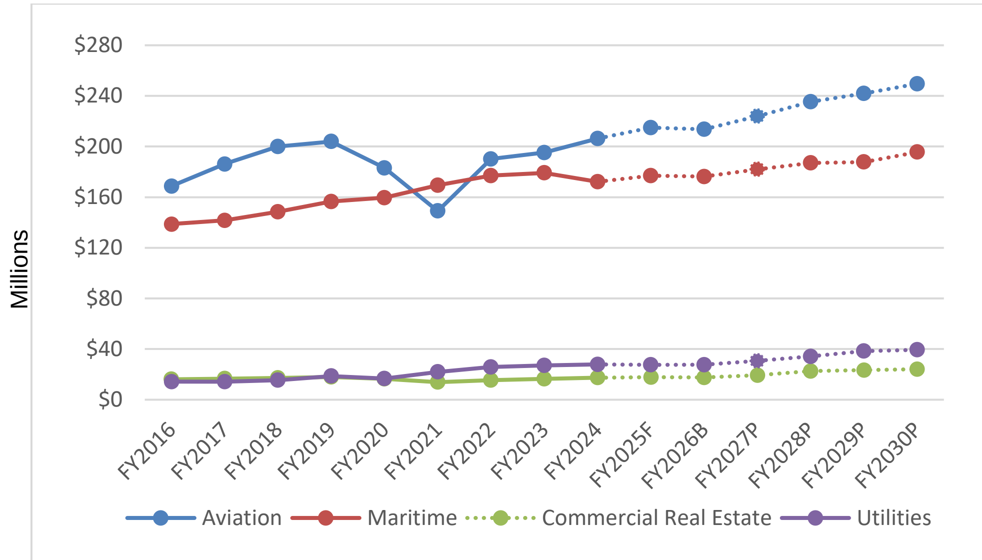
Port Operating Revenues (excluding GASB 87):
Historical vs. Projected Trends



Compound Annual Growth Rate

	FY 2016-19*	FY 2019*-30 Projected
Aviation	+6.5%	+1.9%
Maritime	+4.1%	+2.0%
CRE	+3.6%	+2.7%
Utilities	+9.0%	+7.1%
Port-wide	+5.5%	+2.3%

***FY 2019 is the last full FY before the COVID pandemic**

Please see pages 36-106 of the Budget Summary book for more information on the Port's FY 2026 operating revenue budget and FY 2027-2030 operating revenue projections.

Operating Expenses

Overall, Port operating expenses (excluding depreciation) are budgeted in FY 2026 at $299.7 million, a decrease of $0.4 million or -0.1% in comparison to FY 2025 budget as shown in Table 5. The change is driven by Port wide initiatives to control overall operating expenses by setting total operating expenses flat to FY 2025 Budget in light of lower budgeted operating revenues in FY 2026 compared to FY 2025. Certain areas of the Port's operating expense budget were allowed to increase to advance Port strategic goals while other areas of the operating budget were adjusted down to make headroom for additional expenditures elsewhere.

Table 5
Summary of Operating Expenses (excl. Depreciation)
($000s)

	FY 2024 Actual	FY 2025 Budget	FY 2026 Proposed Budget	Change in Comparison to FY 2025 Budget
Personnel Costs	$136,154	$143,037	$153,931	+$10,894
Contractual Services	99,311	113,422	108,039	-5,383
General & Administrative	22,499	27,447	26,083	-1,364
Supplies	8,120	6,794	6,947	+153
Utility Cost of Sales	17,467	27,894	23,874	-4,020
Departmental Credits[1]	(10,972)	(12,307)	(12,798)	-490
Intercompany Elimination	n/a	(6,162)	(6,343)	-180
Total	**$272,579**	**$300,124**	**$299,733**	**-$391 or -0.1%**

Personnel Expenses

Personnel expenses are approximately 51% of the Port's operating expenses (before depreciation) and are budgeted to be $153.9 million, an increase of $10.9 million or 7.6% in comparison to FY 2025 budget. Personnel cost increases reflect the elimination of 16 unfilled FTEs from the FY 2025 staffing plan and includes a vacancy factor of 29.5 FTEs to reflect normal attrition (down from the 45 FTEs in FY 2025 Budget due the elimination of vacant positions previously included in the vacancy factor) and are summarized in Table 6. FY 2026 budgeted salaries total $83.3 million, $2.6 million higher due to anticipated step increases and the full year impact of a 2.5% COLA effective January 1, 2025 (no additional COLA was assumed in FY 2026). The Port's employer pension expense is anticipated to decrease $0.2 million to $29.3 million due a reduction in pension rate from 36.1% to 34.6% that more than offset higher salaries. Medical costs for retirees, and Other Post Employment Benefit (OPEB), are budgeted at $14.0 million and projected to increase $8.0 million, reflecting an assumed OPEB expense of $2.7 million in FY 2026 compared to $5.0 million credit in FY 2025. The increase in OPEB expense is based on the most recent actuarial report that updated the Port's annual required contributions and required annual expense recognition to account for increased insurance premiums and adjusting for actual vs expected trust investment performance. Medical costs for active employees are budgeted at $14.6 million and projected to increase by $1.1 million reflecting actual medical premiums on January 1, 2025, an assumed increase in medical premiums of 5.0% on January 1, 2026, and updated/assumed employee-elected coverages. Other changes in personnel costs are based on recent experience, recent actuarial reports, or known or assumed rate increases.

[1] Primarily allocation of Engineer staffing costs and related overhead to capital expenses.

Table 6
Summary of Personnel Expenses
($000s)

Personnel Expenses	FY 2024 Actual	FY 2025 Budget	FY 2026 Proposed Budget	Change in Comparison to FY 2025 Budget
Salaries and Wages	$71,378	$80,664	$83,271	+$2,607
Pension	29,445	29,594	29,333	-260
Health Care – Retiree	8,847	6,009	14,000	+7,991
Health Care – Active	11,203	13,496	14,597	+1,102
Overtime	6,454	4,879	4,042	-837
Workers Compensation	2,078	2,625	2,931	+306
Vacation/Sick Leave Accruals	3,073	2,351	2,404	+53
Other[1]	3,676	3,419	3,353	-66
Total	**$136,154**	**$143,037**	**$153,931**	**+$10,894 or +7.6%**

Non-Personnel Operating Expenses

Non-personnel costs are budgeted in FY 2026 to decrease by $11.3 million, or 7.2% lower than the FY 2025 Budget. Shown in Table 7 are the major expenses that drive the net variance to FY 2025 non-personnel expenses.

Significant Non-Personnel Expenses
($000s)

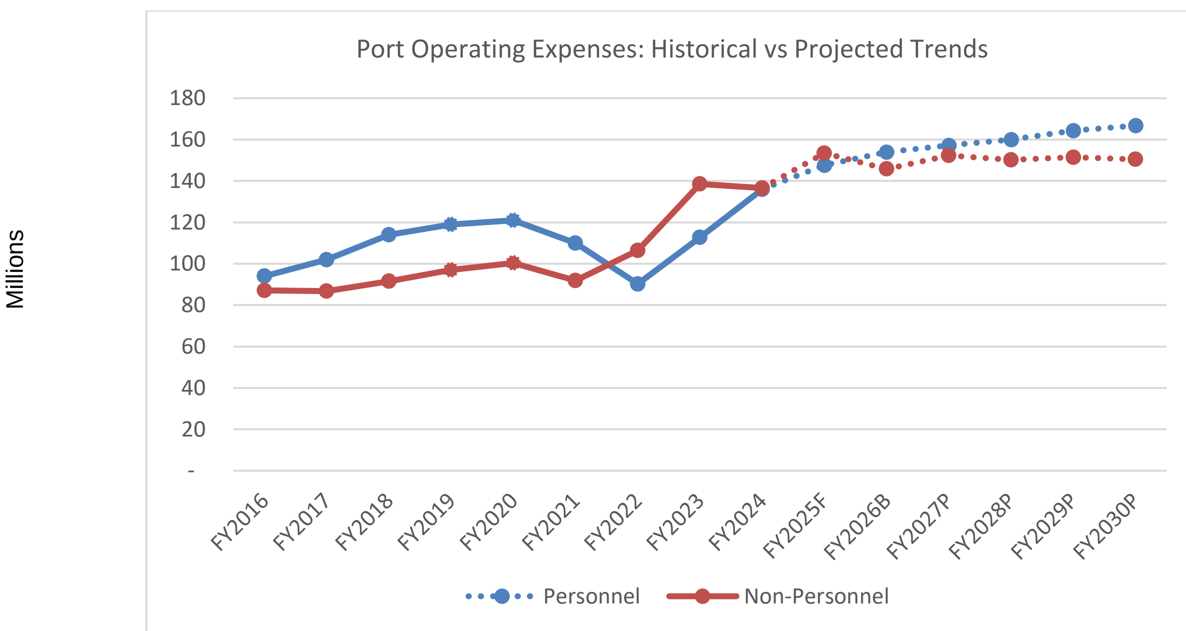
Item	Change in Comparison to FY 2025 Budget
Utilities Cost of Sales - Electricity	-$3,780
Truck Parking - Maritime	-1,002
Contractual Services with Tenants	-1,407
Pollution Remediation	-750
Security	-527
Port Use - Water	-403
Computer Systems	-378

[1] Includes Medicare, life, disability and accident insurance, temporary help, wellness program, continuing education, professional development, training, professional licenses, unemployment insurance, Section 125 Plan admin fees, college/high school intern program, college tuition program, deferred compensation, meal allowance and physicals.

Consulting (Engineering, Environmental, Maritime)	+2,333
Alameda County Sheriff's Office	+700
All Other (Net Decrease)	-6,071
Total Non-Personnel Expense Decrease	**-$11,285**

FY 2027-2030 Operating Expense Projections

Port-wide operating expenses before Depreciation and Amortization (after Intercompany elimination for Port use electricity in Aviation, Maritime, and CRE) are projected to increase from $299.7 million in FY 2026 to $317.2 million in FY 2030, for a forecasted compound annual growth rate of 1.4%. The forecast assumes FTEs remain flat, salary increases for step increases only, medical premiums increasing 5.0%, pension costs increasing to 36.0% of wages in FY 2027, increasing to 36.8% in FY 2028, to 39.3% in FY 2029, and to 39.4% in FY 2030, no GASB 68 pension credit assumed, and no additional changes in unfunded retiree medical liability. This results in personnel costs increasing at a compound annual rate of 2.0% from FY 2026 through FY 2030. Non-personnel costs are assumed to increase at a compound annual rate of 0.8% between FY 2026 and FY 2030. Major maintenance anticipated at $2.4 million in FY 2026, increasing to $3.7 million in FY 2027, decreasing to $3.6 million in FY 2028, increasing to $4.7 million in FY 2029, and decreasing to $4.1 million in FY 2030. Environmental consulting is forecasted at over $3.0 million annually from FY 2026 to FY 2028 before falling back to $0.7 million annually thereafter. The chart below shows historical and projected personnel and non-personnel operating expenses for FY 2016-2030. Please see pages 36-106 of the Budget Summary book for more information on the Port's FY 2026 operating expense budget and FY 2027-2030 operating expense projections.



	Compound Annual Growth Rate	
	FY 2016-19*	FY 2019*-30 Projected
Personnel	+8.2%	+3.1%
Non-Personnel	+3.6%	+4.1%
Port-wide	+6.0%	+3.6%

***FY 2019 is the last full FY before the COVID pandemic**

City Payments

The FY 2026 budget also includes the following payments to the City of Oakland. These payments are included as either operating expenses or non-operating expenses in the budget. Table 8 shows the proposed FY 2026 payment to the City of Oakland. These reflect direct payments and do not include City of Oakland receipts from the generation of other revenues from Port properties and activities such as sales taxes and possessory interest taxes on Port properties.

Table 8
City Payments
($000s)

Item	FY 2026 Proposed Budget
Aircraft Rescue and Fire Fighting Services	$6,700
General Services	1,712
Lake Merritt Maintenance	1,523
Maritime & Jack London Square Police Services	915
Landscape Lighting Assessment District	700
Personnel, City Clerk and KTOP Services	443
Treasury Services	434
Jack London Improvement District	205
Edgewater Median Maintenance[1]	60
Fireboat/OPD Patrol Boat Maintenance	41
Computer Aided Dispatch (CAD) Reimbursement to City	12
Total	**$12,744**
Parking and Utility Taxes	9,654
Total including Taxes	**$22,399**

[1] A payment to the City is not made. Instead, the Port incurs this cost on behalf of City-owned property

Capital Budget

Capital budget authorization totaling approximately $243.3 million is requested from the Board for FY 2026, which includes the capital projects shown in Table 9. Amounts shown in Table 9 are expected expenditures in FY 2026 and do not include prior or subsequent fiscal year expenditures for projects spanning multiple fiscal years.

The capital budget has been developed to match overall Port Staffing resources across many departments available based on a prioritization of Port Staff resources for both expense and capital improvements. The FY 2026 budget reflects prioritization of health and life safety, regulatory compliance, zero emissions initiatives, policy and contractual obligations, preservation and generation of revenue, asset management and essential infrastructure investments. Port Staff have applied a resource allocation planning process in an effort to realistically estimate the amount of work that can be accomplished in FY 2026 considering targeted staffing resources.

Table 9
FY 2026 Capital Budget
($ millions)

FY 2026 Capital Budget -- Projects Summary	FY 2026 Capital Budget	% of Capital Budget
Aviation Terminal Projects	$55.5	22.8%
Marine (Seaport) Terminals Projects	47.5	19.5
Airfield Perimeter Dike Improvements	38.6	15.9
Airfield Projects (Primarily Taxiways)	26.9	11.0
Utilities Electric Projects	25.1	10.3
Maritime (Seaport) Utility Projects	14.6	6.0
Aviation (Airport) Utility Projects	14.0	5.7
Maritime Dredging Projects	5.2	2.1
Maritime (Seaport) Capital Equipment	3.2	1.3
CRE: Building & Tenant Improvements	3.0	1.2
Port wide Miscellaneous Facilities Projects	2.2	0.9
Middle Harbor Shoreline Park (MHSP) Improvements	1.7	0.7
Aviation Security Projects	1.6	0.7
Information Technology Equipment & Systems	1.6	0.6
Aviation Capital Equipment	1.4	0.6
Aviation Ground Access & Parking Projects	1.4	0.6

Total	$243.3	100.0%

Table 10 shows a summary of the Port's FY 2026 Capital Budget by business line and anticipated funding sources.

Table 10
FY 2026 Anticipated Capital Expenses – Uses of Funds by Business Line
($ millions)

Divisions	FY 2026
Aviation	$139.4
Maritime	72.9
Utilities	25.1
CRE	4.3
Support	1.6
Total	**$243.3**

FY 2026 Anticipated Capital Expenses Sources of Funds ($ millions)

Funding Source	FY 2026
Aviation	
Airport Improvement Program (AIP) Grants[1]	$24.4
Airport Terminal Program (ATP) Grants[1]	13.2
Airport Infrastructure (AIG) Grants[1]	17.8
PFC Pay-Go[2]	19.9
Cash	64.1
Total Aviation	**$139.4**
Maritime	
CA State Transportation Auth (CalSTA) Grant	$11.3
MARAD Port Infrastructure Development (PIDP) Grant	4.3
Trade Corridor Enhancement Program (TCEP) Grant	3.7
CalTrans Grant	3.6
Other Grants	1.4
LCFS Funds	4.7
Cash	43.9

[1] The Port has not yet obtained grant funding for all capital projects.
[2] Subject to FAA approval of new PFC application, otherwise funded with cash.

Total Maritime	**$72.9**
Funding Source	**FY 2026**
Utilities	
MARAD Port Infrastructure Development (PIDP) Grant	$2.0
Cap&Trade	0.3
Commercial Paper	4.7
Cash	18.1
Total Utilities	**$25.1**
CRE	
Cash	**$4.3**
Support	
Cash	**$1.6**

Please see the Capital Budget section of the Budget Summary book, pages 108-130, for additional information on the Port's FY 2026 Capital Budget including detailed list of capital projects and updated 5-Year CIP.

Prior Fiscal Year Carryover Capital Spending

Board authorization is requested to carry-over funding into FY 2026 for certain capital projects included in the Board-approved FY 2025 Capital Budget. This authorization is for project costs that were anticipated to be spent in the last four months of FY 2025 (March-June) but for various reasons may be delayed even by minor durations such as a few days or weeks. Therefore, if spending on such projects do not materialize prior to June 30, 2025 then FY 2025 funding will carry forward and remain available in FY 2026.

Funding for these carry-over projects is not included in the FY 2026 Capital Budget as these projects are assumed to have been funded in the prior fiscal year (FY 2025). Whether the actual spending occurs in FY 2025 or FY 2026 has no impact on Port finances or Finance Department's projections of ending cash balances during the five-year projection period.

Transfers Between Operating and Capital Budgets

Board authorization is requested to allow adopted budget expenditures to be transferred between the FY 2026 Operating Budget and the FY 2026 Capital Budget under the following conditions:

1. Approved operating expenses may be transferred to the Capital Budget if:
    a. Accounting standards necessitate capitalization of the expenditure.
    b. The transfer can be absorbed within the existing Capital Budget without exceeding the Board-approved total.
2. Capital expenditures may be transferred to the Operating Budget if:

a. Accounting standards require the expenditure to be treated as an operating expense.
b. The transfer can be absorbed within the existing Operating Budget without exceeding the Board-approved total.

Board-Established Reserves

Pursuant to Board policy, the following reserves shown in Table 11 will continue to be maintained for FY 2026.

Table 11
Board-Established Reserves
($000s)

	FY 2026
Operating Reserve[1]	$37,467
Capital Reserve	15,000
Port Bond Reserve	30,000
Total Reserves	**$82,467**

Please see pages 138-139 of the Budget Summary book for additional information on Board-established reserves.

Debt Service and Debt Service Coverage Ratios

The Port's bond debt service payments and projected debt service coverage ratio for FY 2026 are shown in Table 12.

Table 12
Debt Service and Debt Service Coverage Ratio
($000s)

	FY 2026
Net Revenues[2]	$154,974
Bond Debt Service (Senior & Intermediate)	$77,630
Bond Intermediate Lien Debt Service Coverage Ratio[3]	**2.00x**

[1] Established at 12.5% of Operating Budget (excluding depreciation).
[2] Pursuant to the Port's Senior and Intermediate Lien Trust Indenture, "Net Revenues" represents Operating Revenues, less Operation & Maintenance Expense, plus interest income. However, Operation & Maintenance Expense payable from non-operating revenues are excluded from the calculation.
[3] Bond Debt Service Coverage Ratio equals Net Revenues (as defined in the Bond Indentures) divided by the sum of the debt service on the Senior, DBW Loan and Intermediate Lien Bonds.

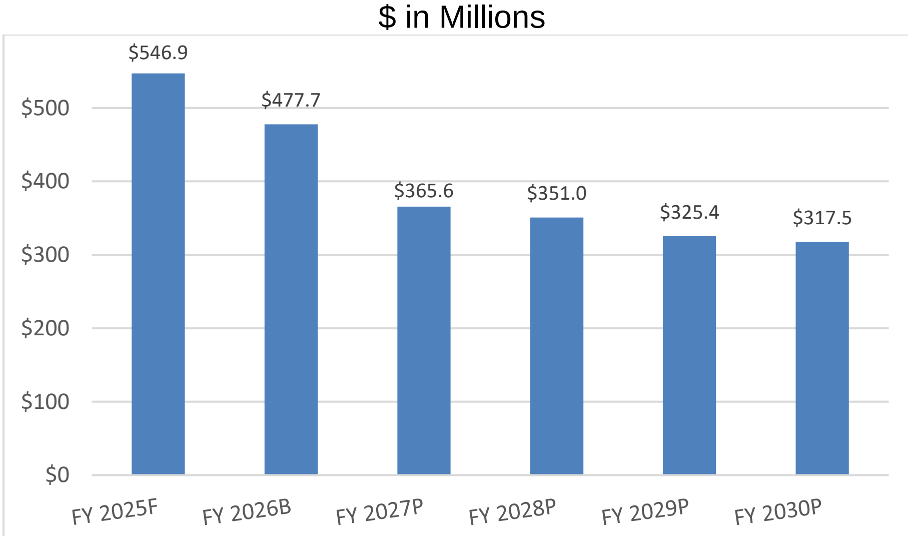
In FY 2026, the Port's debt service payment on its bonds is $77.6 million and planned CP debt service (not included in the table above) will be paid from a combination of Port revenues and PFCs.

The Port's debt service coverage ratio (DSCR) measures net operating revenues (that is, operating revenues less operating expenses) in comparison to debt service. Operating expense paid from non-operating revenues, and debt service paid from grant allocations such as those listed above are excluded from the coverage calculation. DSCR is an important financial metric that reflects both the resiliency and strength of the Port's current and projected future operating performance to meet debt service payments. In FY 2026, the Intermediate Lien debt service coverage ratio is projected to be 2.00x based on the methodology specified in the Port's Intermediate Lien Bond Indenture. Please see pages 132-137 of the Budget Summary book for additional information on debt service.

General Fund Cash Balance

The Port's General Fund balance is an important indicator of the Port's financial health. The General Fund balance changes daily and is used to pay day-to-day operating expenses, capital expenditures already under contract and anticipated in the 5-year CIP, semi-annual bond debt service payments, and all other accrued liabilities. The graph below illustrates the projected General Fund cash balance on June 30, 2025 through June 30, 2030. The projected General Fund balance reflects the proposed FY 2026 operating and capital budgets, as well as the Port's updated 5-year financial forecast, including the 5-year CIP. Please see pages 138-144 of the Budget Summary book for additional information on cash flow.

Projected June 30 General Fund Ending Balance[1]
$ in Millions



[1] Excludes Board reserves and other restricted funds (such as PFCs, CFCs, contractor retention and Bond Trustee held reserves).

OTHER FINDINGS AND PROVISIONS

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ENVIRONMENTAL REVIEW

The proposed action was analyzed under the California Environmental Quality Act (CEQA) and was found to be:

☐ Categorically exempt under the following CEQA Guidelines Section:

Choose an item.

☒ "Common Sense" exemption under CEQA Guidelines Section 15061(b)(3).

☐ Other/Notes:

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BUDGET

☐ Administrative (No Impact to Operating, Non-Operating, or Capital Budgets); OR

☒ Operating ☒ Non-Operating ☒ Capital

Analysis: The proposed action would establish FY 2026 operating, non-operating and capital budgets.

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STAFFING

☐ No Anticipated Staffing Impact.

☒ Anticipated Change to Budgeted Headcount.

Reason: The Proposed action would set FY 2026 staffing level at 534 FTEs, however, a vacancy factor of 29.5 FTEs to reflect normal attrition, effectively reduces active staffing levels to 504.5 FTEs.

☐ Other Anticipated Staffing Impact (e.g., Temp Help).

Reason:

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MARITIME AND AVIATION PROJECT LABOR AGREEMENT (MAPLA):

Applies? No (Not Aviation or Maritime CIP Project) – proposed action is not covered work on Port's Capital Improvement Program in Aviation or Maritime areas above the threshold cost.

☐ Additional Notes:

</td><td>

LIVING WAGE (City Charter § 728):

Applies?

No (Not Covered Entity) – proposed action involves entity not covered by Living Wage requirements because it is not a covered service provider or tenant, does not employ at least 21 employees, or receive from or pay to Port at least $50,000.

☐ Additional Notes:

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<td><u>SUSTAINABLE OPPORTUNITIES</u>:

<u>Applies?</u> No.

<u>Reason</u>: The proposed action is limited to the approval of the annual proposed budget.</td>
<td><u>GENERAL PLAN</u> (City Charter § 727):

<u>Conformity Determination</u>:

Not Required – conformity determination not required because proposed action does not change use of or make alterations to an existing facility, or create a new facility.</td>
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<td colspan="2"><u>STRATEGIC PLAN</u>. The proposed action would help the Port achieve the following goal(s) in the Port's Strategic Plan:

☒ Capture Our Market and Grow the Economic Base

☒ Modernize and Upgrade Infrastructure

☒ Transition to Zero-Emissions and Build Climate Resilience

☒ Maximize Land Use Value and Revenues

☒ Workforce Training and Jobs Development

☒ Create Opportunities for Local Businesses and Community Economic Development</td>
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