

## AGENDA REPORT

**Resolution:** Approval of the Annual Operating and Capital Budgets for Fiscal Year Ending June 30, 2016.

### Finance & Administration

**MEETING DATE:** 6/25/2015

**AMOUNT:** As presented below and in the Budget Summary (Attachment A)  
Choose an item.

**PARTIES INVOLVED:** None

**SUBMITTED BY:** Sara Lee, Chief Financial Officer

**APPROVED BY:** J. Christopher Lytle, Executive Director

**ACTION TYPE:** Resolution

### **EXECUTIVE SUMMARY:**

This agenda report requests the Board to adopt the annual Operating and Capital Budgets for the fiscal year ending June 30, 2016.

### **BACKGROUND**

The Charter of the City of Oakland was adopted on November 5, 1968 and was ratified by the State of California effective January 28, 1969, as amended. Under Article VII Section 715 of the City Charter, *“The Board shall annually, on or before the fourth Monday of May, or not less than one week prior to the submission of the annual appropriation ordinance by the City Administrator, should the Council advance the date therefore, but not later than the third Monday of July, carefully prepare a budget setting forth the estimated receipts of the Port, and revenue from other sources, for the ensuing year, and the sums of money necessarily required for the administration of the Department, and for maintenance, operation, construction, and development of the port and its facilities for the ensuing year, and stating the amount necessary to be raised by tax levy for said purposes.”*

Port staff has developed the following documents related to the budget:

- 1-Year Operating Budget for fiscal year ended June 30, 2016;
- 1-Year Capital Budget for fiscal year ended June 30, 2016;
- 5-Year Operating Forecast for FY 2016 through FY 2020;
- 5-Year Capital Improvement Program for FY 2016 through FY 2020; and
- The Budget Summary (Attachment A), which contains the afore-listed items, as well as other related information such as the Port's staffing plan, division-specific operating budgets, debt service payments, cash flow projections, reserve amounts, and capital project descriptions.

In addition, Port staff has made budget presentations to the Board on March 26 and May 28, 2015. Copies of those presentations are attached (Attachment B).

Only the FY 2016 Operating and Capital Budgets are presented for Board adoption. Subsequent years of the operating forecast, the FY 2016 Capital Pipeline Projects, and the 5-Year Capital Improvement Program are informational and presented for planning purposes only.

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The table below summarizes the Port's FY 2016 Budget.

**Uses and Sources of Funds  
(\$000s)**

	<b>FY 2016 Budget</b>
<b>Uses of Funds</b>	
Operating Expenses	\$193,226
Capital Expenses	133,092
Capital Expenses – Pipeline Projects <sup>1</sup>	34,002
Debt Service	103,703
Other Expenses <sup>2</sup>	5,879
<b>Total Uses</b>	<b>\$469,903</b>
<b>Sources of Funds</b>	
Operating Revenues	\$330,276
Grants <sup>3</sup>	64,286
PFCs and CFCs	27,054
Commercial Paper (Debt) Proceeds <sup>4</sup>	28,988
Interest Income	1,135
Available Cash <sup>5</sup>	18,164
<b>Total Sources<sup>6</sup></b>	<b>\$469,903</b>

<sup>1</sup> Board authorization is not requested for FY 2016 Pipeline Projects. The project costs are included in the Port's financial planning and cash flow analyses, however, authorization to proceed with the FY 2016 Pipeline Projects are subject to subsequent Board approval during the course of the fiscal year.

<sup>2</sup> Includes commercial paper and bond related fees; General Services and Lake Merritt payments to the City of Oakland; retroactive CalPERS pension payments for Airport service people; and costs to demolish FAA Control Tower.

<sup>3</sup> The Port has not yet obtained grant funding for all capital projects included in the budget.

<sup>4</sup> Debt proceeds are anticipated to be for the Port's Terminal 1 renovation project and payable by future Passenger Facility Charges. Assumes that the Port's commercial paper program will be utilized in the interim until a long-term bond transaction occurs.

<sup>5</sup> Includes \$10 million remaining payment for Brooklyn Basin transaction and lagged grant receipts.

<sup>6</sup> Totals may not add up due to rounding.

A comparison of the FY 2016 Budget to the FY 2015 Budget is provided in the following table:

**Comparison of FY 2016 Proposed Budget to FY 2015 Budget  
(\$000s)**

	<b>FY 2016 Budget</b>	<b>Change in Comparison to FY 2015 Budget</b>	<b>% Change in Comparison to FY 2015 Budget</b>
Operating Revenues	330,276	+ 15,517	+ 4.9%
Operating Expenses before Depreciation	193,226	+ 6,923	+ 3.7%
Operating Income before Depreciation	137,050	+ 8,594	+ 6.7%
Operating Income	30,520	+ 3,885	+ 14.6%
Other Expenses <sup>7</sup>	5,876	+ 377	+ 6.9%
Debt Service <sup>8</sup>	103,703	+ 928	+ 0.9%
FY 2016 Capital Budget – Initial	133,092	– 42,232	– 24.1%
FY 2016 Capital Pipeline Projects <sup>9</sup>	34,002	+ 30	0.1%
Anticipated Additional Debt in FY 2016 (Payable by PFC Revenues)	28,988	+ 6,358	+ 28.1%
Board Established Reserves	69,153	+ 865	+ 1.3%
Debt Service Coverage Ratio	1.40x	1.31x	+ 0.09x
Anticipated Cash Balance on June 30	150,063	+ 46,554	+ 45.0%
FTEs	497	0	0.0%

<sup>7</sup> Includes commercial paper and bond related fees; General Services and Lake Merritt payments to the City of Oakland; retroactive pension payments for Airport service people; deposits to Board-established Operating Reserve; and costs to demolish FAA Control Tower.

<sup>8</sup> Includes \$4 million repayment of commercial paper notes.

<sup>9</sup> Board authorization is not requested for FY 2016 Pipeline Projects. The project costs are included in the Port's financial planning and cash flow analyses, however, authorization to proceed with the FY 2016 Pipeline Projects are subject to subsequent Board approval during the course of the fiscal year.

## **ANALYSIS**

The FY 2016 Operating and Capital Budgets were developed taking into account several key factors. The Port approaches the start of FY 2016 with a financial condition that is significantly improved since the lows of 2009 and reflective of certain significant improvements. The Port's cash balance and liquidity are good. The Port's operating margins and debt service coverage ratio have significantly improved. The Port's annual debt service payments have been lowered by approximately \$15 million per year. And Aviation activity and revenue growth over the last 12 months has been very positive. However, significant uncertainty surrounds Maritime business activities and revenues given timing of lease renewals; changes occurring in the shipping industry; competitive factors among seaports; competitive factors among terminal operators within the Port; and recent labor disruptions at west coast seaports. In addition, expenses continue to rise faster than revenues with personnel costs and security costs leading the way. Lastly, the Port's 5-year Capital Improvement Program ("CIP") remains constrained due to both funding and staffing levels. As a result, Port leadership continued to be very mindful and discerning in the development of the FY 2016 budget, trying to keep costs down to the extent prudently possible and closely examining past and expected expenditures to tighten budget estimates.

### **Operating Revenues**

#### **Summary of Operating Revenues (\$000s)**

	<b>FY 2014 Actual</b>	<b>FY 2015 Anticipated</b>	<b>YoY Growth</b>	<b>FY 2016 Budget</b>	<b>YoY Growth</b>
Aviation	\$153,008	\$158,100	3.3%	\$162,778	3.0%
Maritime	146,823	145,500	-1.0%	140,632	-3.3%
CRE	13,061	14,300	9.5%	14,706	2.8%
Utilities	10,147	13,300	31.1%	12,160	-10.2%
Total	\$323,040	\$331,100	2.5%	\$330,276	-0.2%

### Activity Levels

	<b>FY 2014 Actual</b>	<b>FY 2015 Anticipated</b>	<b>YoY Growth</b>	<b>FY 2016 Budget</b>	<b>YoY Growth</b>
Airport Passengers	9,890,000	10,730,000	8.5%	11,159,000	4.0%
Seaport Full TEUs	1,833,000	1,725,000	-5.9%	1,768,000	2.5%

Operating revenues are projected to increase \$15.5 million or 4.9% in FY 2016 compared to FY 2015 Budget. In comparison to FY 2015 anticipated revenues of \$331.1 million, operating revenues are projected to be lower by \$0.8 million, or 0.2%. Revenue projections reflect expectations of continuing above-average growth at the airport and a return to normal levels at the seaport, following cargo slow-down and diversion that occurred in the second half of FY 2015.

In FY 2016, Aviation revenues are projected to be \$162.8 million, which is an \$11.2 million or 7.4% increase in comparison to FY 2015 Budget. In comparison to FY 2015 anticipated revenues of \$158.1 million, FY 2016 budgeted revenues are \$4.7 million or 3.0% higher. FY 2016 Aviation revenues are driven by (i) projected 4% activity growth, (ii) higher airline rates and charges due to increased operating expenses, (iii) higher parking revenues due to increased passenger volume and higher revenue per parking transaction, (iv) higher terminal concession revenues due to higher passenger volume and spend rate, and (v) higher lease revenues due to scheduled lease adjustments. Loss of \$1.0 million of AirBART shuttle bus revenues due to commencement of BART-OAK Connector in November 2014, is partly offset by reduction in AirBART operating expenses.

In FY 2016, Maritime revenues are projected to be \$140.6 million, which is a \$1.1 million or 0.8% increase in comparison to FY 2015 Budget. In comparison to FY 2015 anticipated revenues of \$145.4 million, FY 2016 projected revenues are \$4.8 million or 3.3% lower. FY 2016 Maritime revenues are based on (i) expectation that cargo activity will return to normal, (ii) lower revenues from marine terminals, and (iii) space assignment and truck parking revenues based on the fluctuating need of adjacent marine terminals which are higher in comparison to FY 2015 Budget but lower in comparison to FY 2015 anticipated actuals.

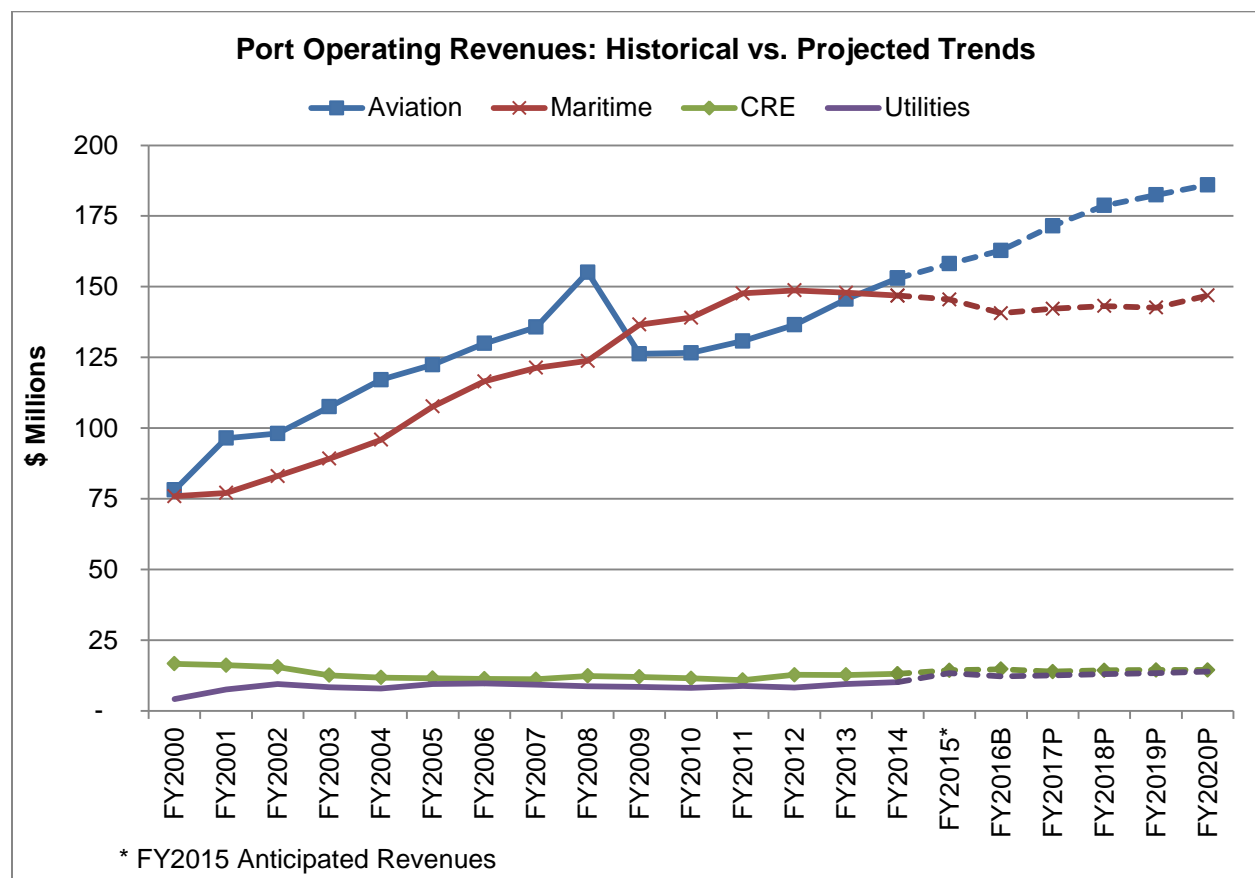
Commercial real estate revenues are projected at \$14.7 million, an increase of \$1.1 million or 7.9% in comparison to FY 2015 Budget. In comparison to FY 2015 anticipated revenues of \$14.3 million, FY 2016 budgeted revenues are up \$0.4 million or 2.8%. FY

2016 CRE revenues are driven by anticipated increases in percentage rents, minimum rent adjustments due to lease renewals and schedule rent adjustments.

Utility revenues are projected at \$12.2 million, an increase of \$2.1 million or 20.7% over FY 2015 Budget primarily due to higher shore power usage; however, compared to FY 2015 anticipated actuals, electricity revenues are lower due to unanticipated temporary higher usage in FY 2015 resulting from the cargo disruptions at the seaport. The budgeted utility revenue increase is offset by \$1.4 million, or 23.8%, higher budgeted utilities cost of sales.

### FY 2017-20 Operating Revenue Projections

Port-wide operating revenues are projected to increase from \$330.3 million in FY 2016 to \$361.2 million in FY 2020, at a compound annual growth rate of 2.3%. The limited growth in revenues is primarily due to modest activity growth as well as certain upcoming lease renewals which are anticipated to renew at lower rates. This downward pressure is offset by anticipated increases in airline rates and charges, maritime tariff increase, and contractual lease escalations. The chart below shows that the projected revenue growth is mostly driven by Aviation revenues due to higher activity.



## Operating Expenses

Overall, Port operating expenses excluding depreciation are budgeted to increase \$6.9 million or 3.7%.

### Summary of Operating Expenses (excl. Depreciation) (\$000s)

	<b>FY 2014 Actual</b>	<b>FY 2015 Budget</b>	<b>YoY Growth</b>	<b>FY 2016 Budget</b>	<b>YoY Growth</b>
Personnel Costs	\$94,147	\$100,146	6.4%	\$102,265	2.1%
Contractual Services <sup>10</sup>	56,084	67,177	19.8%	70,263	4.6%
General & Administrative <sup>11</sup>	19,117	20,599	7.8%	19,558	(5.1%)
Supplies	4,345	4,342	(0.1%)	4,346	0.1%
Utility Cost of Sales	5,300	5,698	7.5%	7,053	23.8%
Departmental Credits <sup>12</sup>	(10,448)	(11,659)	11.6%	(10,260)	(12.0%)
Total	\$168,545	\$186,303	10.5%	\$193,226	3.7%

### Personnel Costs

The FY 2016 Operating Budget reflects 497 funded full-time equivalents (FTEs), unchanged from FY 2015 Budget. Personnel costs are budgeted to be \$102.3 million, an increase of \$2.1 million or 2.1% primarily due to increases in wages, pension costs and worker's compensation. Salaries and wages are budgeted at \$53.1 million, an increase of \$0.9 million, or 1.8% over FY 2015 Budget, due to CPI and step increases, offset by an increase in the vacancy factor from 25 to 30 FTEs. The Port's employer pension contribution rate will increase from 30.2% to 32.9% of wages on July 1, 2015. Pension costs are budgeted at \$17.9 million, resulting in a \$1.8 million or 11.1% increase. FY 2016 medical costs are projected to be lower by \$0.5 million due to a

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<sup>10</sup> \$1.2 million of the change in FY 2016 Budget is due to re-coding of certain Maritime truck parking expenses from General and Administrative to Contractual Services.

<sup>11</sup> \$1.2 million of the change in FY 2016 Budget is due to re-coding of certain Maritime truck parking expenses from General and Administrative to Contractual Services.

<sup>12</sup> Allocation of operating expenses (primarily Engineer costs) to capital expenses.



3.8% decrease in the Kaiser medical premium rates on January 1, 2015, offset by an assumed 6% increase of medical premiums on January 1, 2016. Health care costs, including retiree medical benefits, are budgeted at \$22.9 million. Worker's compensation is budgeted to increase \$0.5 million based on the Port's most recent actuarial study projecting claims and costs.

**FY 2016 Budgeted Personnel Costs  
(\$000s)**

<b>Personnel Costs</b>	<b>FY 2016 Budget</b>	<b>% Total</b>
Salaries	\$53,100	52%
Pension Costs	17,889	17%
Health Care - Retirement	13,010	13%
Healthcare - Active <sup>13</sup>	9,886	10%
Overtime	2,940	3%
Workers Compensation	2,414	2%
Vacation/Sick Leave Accruals	1,500	1%
Other <sup>14</sup>	1,526	1%
<b>Total</b>	<b>\$102,265</b>	<b>100%</b>

**Non-Personnel Operating Expenses**

Non-personnel costs in FY 2016 are budgeted to increase by \$4.8 million, or 5.6% over FY 2015 Budget, including an increase in Contractual Services of \$3.1 million or 4.6%, a decrease in General and Administrative expenses of \$1.0 million or 5.1%, a decrease in Departmental credits of \$1.4 million or 12% due to lower indirect overhead rate applied to Port capital projects, and a \$1.4 million increase in Utilities Cost of Sales due to higher usage.

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<sup>13</sup> Includes Medicare.

<sup>14</sup> Includes temporary help, life insurance, state disability insurance, long term, 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 comp, meal allowance and physicals.

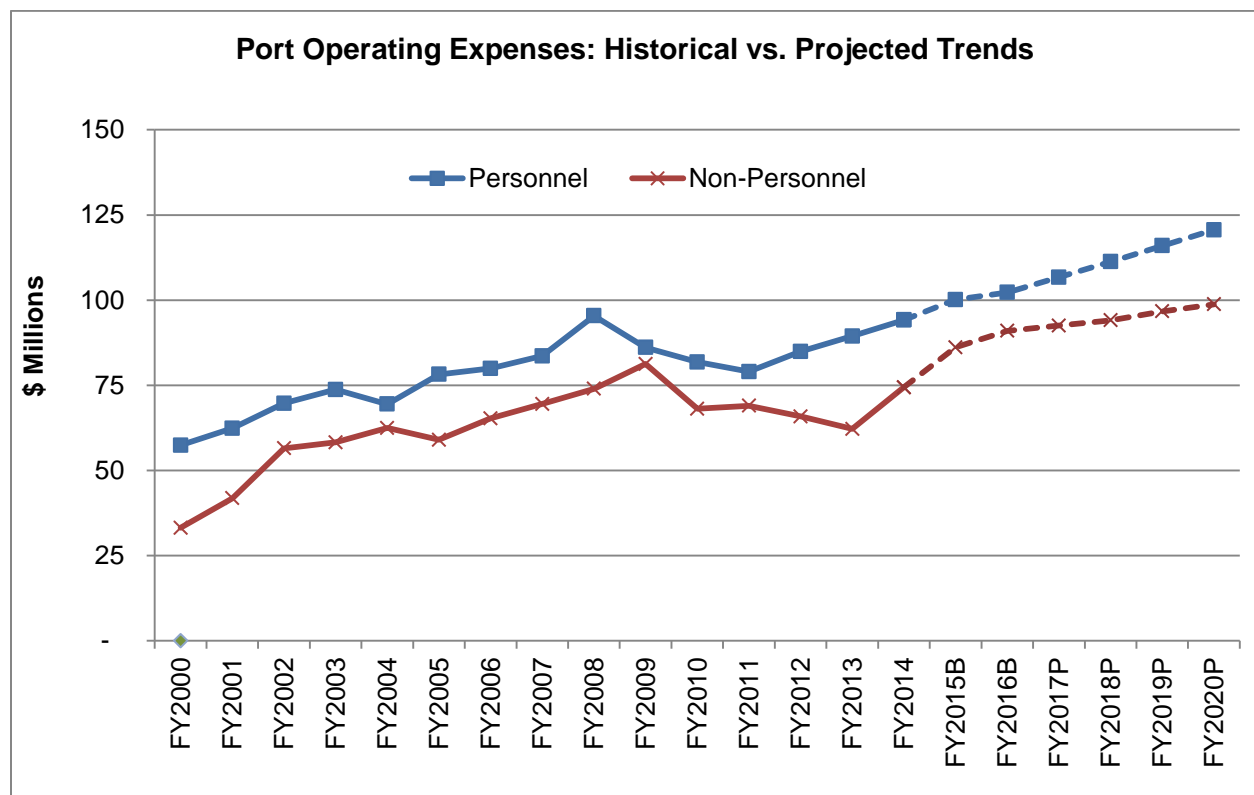
### Significant Non-Personnel Cost Increases

Item	\$ millions
<ul style="list-style-type: none"> <li>Alameda County Sheriff costs higher due to contractual rate increase and greater demand from new airline service offerings</li> </ul>	\$1.4
<ul style="list-style-type: none"> <li>Utility Cost of Sales increase due to higher usage, offset by higher utility revenues</li> </ul>	1.4
<ul style="list-style-type: none"> <li>Allocation of operating expenses (primarily Engineer costs) to capital expenses is lower due to updated lower overhead rate calculation</li> </ul>	1.4
<ul style="list-style-type: none"> <li>Truck parking lot operating costs increase due to higher volume, offset by higher truck parking revenues</li> </ul>	1.2
<ul style="list-style-type: none"> <li>Parking lot and rental car shuttle bus operating costs increase due to reallocation of shuttle bus operator overhead costs resulting from the cessation of AirBART and other scheduled increases</li> </ul>	0.6
<ul style="list-style-type: none"> <li>New municipal storm water permit regulation compliance costs due to adoption of recent regulations</li> </ul>	0.2
<ul style="list-style-type: none"> <li>Port-use utility costs increase mostly due to better estimate of necessary electricity needs for Howard terminal</li> </ul>	0.2
<ul style="list-style-type: none"> <li>Computer system licensing and hosting costs higher due to general price increases</li> </ul>	0.2
<ul style="list-style-type: none"> <li>Replacement of outdated desktop computers</li> </ul>	0.2
<ul style="list-style-type: none"> <li>Maintenance dredging costs increase due to regulatory disposal requirement and additional dredging at Howard terminal</li> </ul>	0.1
<ul style="list-style-type: none"> <li>Community outreach and sponsorships budgeted higher</li> </ul>	0.1

### Significant Non-Personnel Cost Decreases

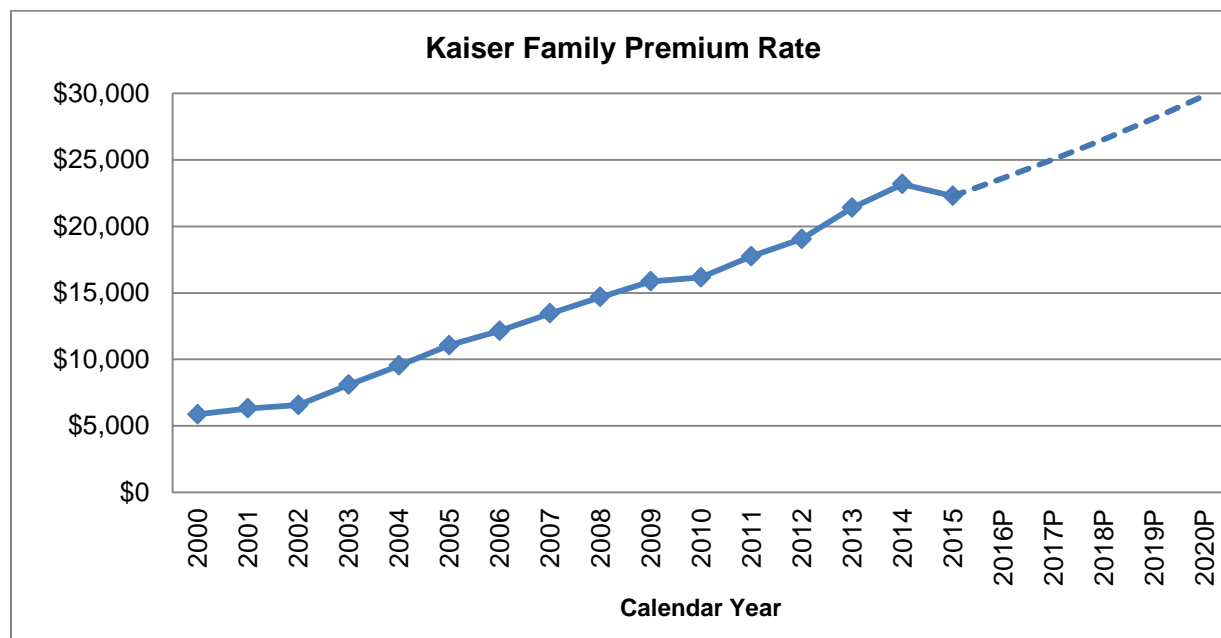
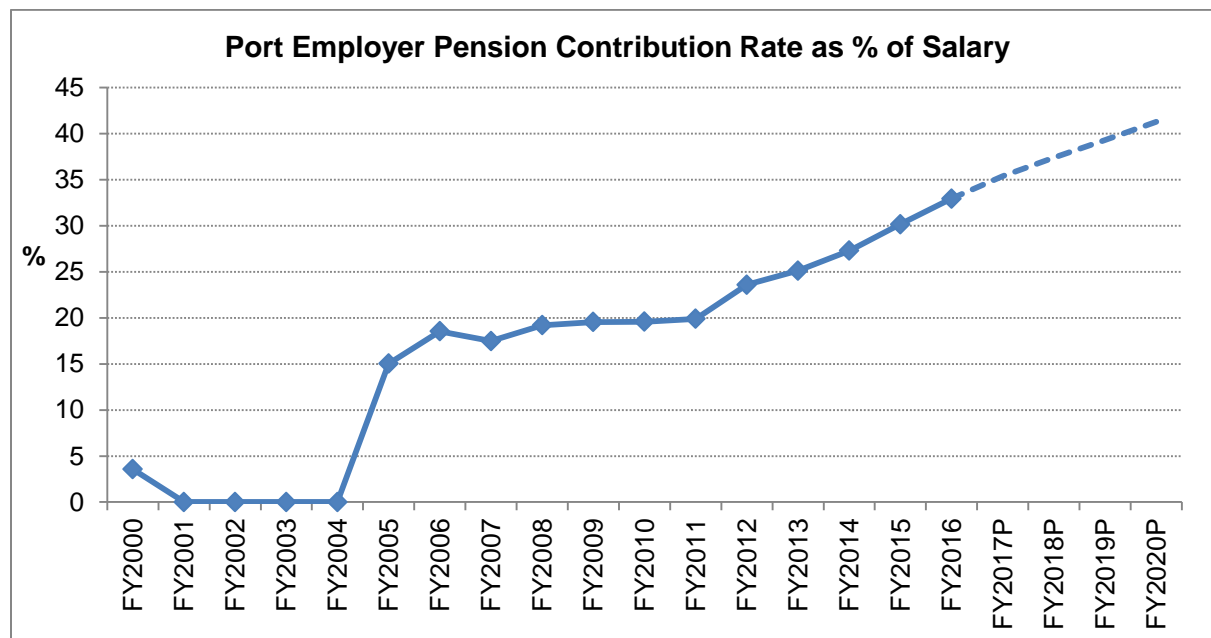
Item	\$ millions
<ul style="list-style-type: none"> <li>Maintenance and repair expenses; primarily at Maritime facilities as a result of aligning available staffing resources to the amount of work that can be accomplished</li> </ul>	\$0.7
<ul style="list-style-type: none"> <li>Cessation of AirBART shuttle bus operations</li> </ul>	0.8
<ul style="list-style-type: none"> <li>Outside legal services based on recent experience</li> </ul>	0.4
<ul style="list-style-type: none"> <li>Miscellaneous financial and management consultants and bank charges based on recent experience</li> </ul>	0.2

### FY 2017-20 Operating Expense Projections



Port-wide operating expenses (excluding depreciation) are projected to increase from \$193.2 million in FY 2016 to \$219.4 million in FY 2020, at a compound annual growth rate of 3.2%. Personnel costs are assumed to increase at a compound annual growth

rate of 4.2%. This assumes no increase in FTEs from current staffing levels, and is driven by assumed increases in medical premiums of 6% per annum and increases in pension rates from 32.9% to 41.3% of wages in FY 2020. The graphs below illustrate the historical and projected change in health care premiums and pension costs. Contractual services, general and administrative costs, and supplies are assumed to grow at a compound annual growth rate of 1.9%, 2.8% and 1.7% respectively. Operating expense projections take into account anticipated changes, but otherwise assume expenses will grow at 2.5% per annum.



Please see pages 38-98 of the Budget Summary book for more information on the Port's FY 2016 Operating Budget and FY 2017-20 operating revenue and expense projections.

### **City Payments**

The FY 2016 Budget also includes the following payments to the City of Oakland. These payments are included as Operating Expenses or Non-Operating Expenses in the budget.

#### **FY 2016 Budgeted City Payments (\$000s)**

Aircraft Rescue and Fire Fighting Services	\$6,024
General Services	1,226
Lake Merritt Maintenance	1,090
Maritime, Jack London Square And Contingent Police Services	1,018
Landscape Lighting Assessment District	663
Treasury Services	289
Personnel, City Clerk and KTOP Services	251
Jack London Improvement District	110
Edgewater Median Maintenance <sup>15</sup>	60
Fireboat/OPD Patrol Boat Maintenance	41
<b>Total</b>	<b>\$10,771</b>
Parking Taxes	7,920
<b>Total including Parking Taxes</b>	<b>\$18,691</b>

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<sup>15</sup> A payment to the City is not made. Instead, the Port incurs this cost on behalf of City-owned property

## Capital Budget

For FY 2016, budget authorization of \$133.1 million is requested from the Board for projects for which there is already a contractual obligation, as well as limited amounts for pre-development work to scope potential projects and miscellaneous facilities replacement projects<sup>16</sup>. “Contractual obligations” are generally defined as expenditures for which, for example, there is an active contract in place or a lease agreement that requires the Port to take certain actions. This authorization comprises the FY 2016 Capital Budget – Initial which includes the following capital projects, most of which are already in progress:

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<sup>16</sup> Miscellaneous facility replacement refers to smaller scope projects or needs that may arise during the course of the fiscal year that are unforeseen or difficult to predict with certainty; these projects are usually less than \$100,000.

### FY 2016 Capital Budget - Initial

<b>Business Line<sup>17</sup></b>	<b>Projects</b>	<b>\$ millions</b>
A	Runway Safety Area	\$37.0
A	Terminal 1 Renovations	36.0
M	Oakland Army Base Redevelopment	32.3
A	BART Connector Payment	8.0
A	TSA Recapitalization EDS	4.3
M	B33-34 Fire Water System	2.8
M	-50 ft Dredging Project Cost Share	2.0
A	Air Cargo Way Repave	1.9
A,M	Various Capital Equipment	1.2
A	Upgrade CCTV Head End	0.8
A	Replace Pump House 6	0.7
M	Fiber Optic Expansion and Resiliency	0.4
M	MHSP Elevator Replacement	0.4
A	Lift Station Sewer Improvements	0.4
C	Environmental Remediation Union Pt	0.4
A	Airfield Ramp Control	0.4
M	Marine Terminal Pavement Enhancement	0.4
M	OAB Security System Expansion	0.2
M	Roadway LED Installations	0.2
M	Sanitary Sewer Upgrades and Replacement	0.2
S	IT System Resiliency	0.1
A,M	Pre-Development	0.8
A,M,C	Misc. Facilities Replacement Projects	1.4
	<b>Total</b>	<b>\$133.1</b>

In addition, approximately \$34.0 million of additional projects are anticipated to commence in FY 2016 subject to Board approval (FY 2016 Pipeline Projects). Authorization to proceed with FY 2016 Pipeline Projects may be provided by the Board on a project-by-project basis, based on the need, financial analysis, cost estimates, alignment with Port goals and strategies, available funding and available staffing

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<sup>17</sup> Aviation (A); Maritime (M); Commercial Real Estate (C); Support (S)

resources. For cash flow and financial planning purposes, the FY 2016 Pipeline Projects are assumed to be approved by the Board during the course of the fiscal year.

Provided below is a summary of the Port's FY 2016 Capital Budget – Initial and Pipeline Projects and anticipated funding sources.

**FY 2016 Capital Expenditures  
Uses of Funds by Business Line  
(\$ millions)**

	<b>FY 2016 Capital Budget - Initial</b>	<b>FY 2016 Pipeline Projects</b>	<b>FY 2016 Total</b>
Aviation	\$92.3	\$23.7	\$116.0
Maritime	39.9	8.3	48.2
CRE	0.7	0.9	1.6
Support	0.2	1.1	1.3
<b>Total</b>	<b>\$133.1</b>	<b>\$34.0</b>	<b>\$167.1</b>

**FY 2016 Capital Expenditures  
Funding Sources  
(\$ millions)**

	<b>FY 2016 Capital Budget - Initial</b>	<b>FY 2016 Pipeline Projects</b>	<b>FY 2016 Total</b>
Aviation Grants	\$33.9	\$2.7	\$36.6
Maritime Grants	26.2	0.8	27.0
PFC Pay-Go	21.2	0.0	21.1
CP Debt Proceeds	24.5	4.5	29.0
CFCs	0.0	0.8	0.8
Cash	27.4	25.3	52.9
<b>Total</b>	<b>\$133.1</b>	<b>\$34.0</b>	<b>\$167.1</b>

Please see pages 99-117 of the Budget Summary book for additional information, on the Port's FY 2016 Capital Budget, FY 2016 Pipeline Projects and updated 5-year Capital Improvement Program (FY 2016-2020).



## **Board-Established Reserves**

The following reserves will continue to be maintained for FY 2016:

### **FY 2016 Board-Established Reserves (\$000s)**

Operating Reserve	\$24,153
Capital Reserve	15,000
Port Bond Reserve	30,000
Total Reserves	\$69,153

Please see pages 123-124 of the Budget Summary book for additional information on Board-established reserves.

## **Debt Service, Debt Service Coverage Ratio, and Cash Balance**

The Port's debt service payments, projected debt service coverage ratios (DSCRs), and fiscal year ending cash balance are summarized in the table on the following page.

**Debt Service, Debt Service Coverage Ratio, and Cash Balance  
(\$000s)**

<b>(\$000s)</b>	<b>Actual FY 2014</b>	<b>Budget FY 2015</b>	<b>Budget FY 2016</b>	<b>Projected FY 2017</b>	<b>Projected FY 2018</b>	<b>Projected FY 2019</b>	<b>Projected FY 2020</b>
Senior & Intermediate Lien Bonds	\$97,733	\$97,735	\$98,448	\$99,049	\$100,536	\$102,045	\$96,680
DBW Loan	458	458	458	458	458	458	458
Commercial Paper Notes (payable from Operating Revenues) <sup>18</sup>	1,086	4,582	4,438	4,816	5,008	5,392	5,697
Commercial Paper Notes (payable from PFCs) <sup>19</sup>	na	na	360	1,202	1,603	2,404	3,327
Total Debt Service	\$99,276	\$102,775	\$103,703	\$105,525	\$107,604	\$110,298	\$106,182
Debt Service Coverage Ratio (excl. amount paid by PFCs) <sup>20</sup>	1.62x	1.31x	1.40x	1.43x	1.44x	1.40x	1.51x
General Fund Balance on June 30 <sup>21</sup>	135,608	140,000 <sup>22</sup>	150,063	121,494	127,109	142,150	176,997

<sup>18</sup> Includes principal repayment of outstanding CP Notes totaling \$4 million per year as part of an overall plan to repay this debt. Does not include debt service paid on CP Notes anticipated to be repaid with PFCs. The interest rate on the CP Notes is assumed to be 0.75% in FY 2016, increasing to 4% in FY 2020.

<sup>19</sup> It is anticipated that approximately \$64.2 million of debt payable by PFCs will be issued to finance a portion of the Terminal 1 renovations between FY 2016-2020, in addition to \$12 million of previously issued CP Notes. It is currently assumed that the Port will utilize its CP program in the interim until a long-term bond financing is undertaken. The interest rate on the CP Notes is assumed to be 0.75% in FY 2016, increasing to 4% in FY 2020.

<sup>20</sup> Debt Service Coverage Ratio is Net Revenues (as defined in the Indentures) divided by debt service on Senior and Intermediate Lien Bonds, DBW Loan, and CP Notes (excluding amounts paid by Passenger Facility Charges (PFCs)).

<sup>21</sup> Other funds held by the Port are (1) Board-dedicated reserves of approximately \$69.2 million for emergency operating and capital expenses, (2) PFC and CFC revenues, which must be held separately as their use is restricted to eligible Aviation-related capital expenditures, and (3) contractor retention which is held in escrow; it is customary to withhold a percentage of payments until construction is completed. In addition, the Bond Trustee holds for the benefit of bondholders approximately \$58 million in cash reserves. This reserve is required by bondholders and was funded by issuing additional debt.

<sup>22</sup> Anticipated actuals.

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 Capital Improvement Program, bond debt service payments each year (approximately \$58 million on November 1, 2015), and all other accrued liabilities.

Please see pages 119-126 of the Budget Summary book for additional information on debt service and cash flow.

### **BUDGET & STAFFING**

The proposed action would establish FY2016 Operating and Capital Budget and set FY2016 staffing level at 497 FTEs.

### **MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)**

The matters contained in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

### **STRATEGIC PLAN**

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Plan.

(<http://www.portofoakland.com/pdf/about/strategicPlan2011-2015.pdf>)

Goal D: Improve the Port's Financial Position

### **LIVING WAGE**

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply because the requested action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage Regulations.

### **ENVIRONMENTAL**

The proposal to adopt the Operating and Capital Budgets and to approve payments of operating, capital and other expenses, and debt service was reviewed in accordance with the requirements of the California Environmental Quality Act (CEQA), and the Port CEQA Guidelines. CEQA only requires analysis of activities that are defined as a

"project". The creation of government funding mechanisms or other government fiscal activities that do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment is not a project pursuant to Section 15378(b)(4) of the CEQA Guidelines. In addition, continuing administrative or maintenance activities, personnel-related actions, general policy and procedure making are not projects pursuant to Section 15378(b)(2) of the CEQA Guidelines. Therefore, adoption of the Port's budgets and approval of payments are funding and administrative actions, respectively, and are not projects under CEQA.

The Capital Budget authorizes funding of specific capital projects for which appropriate CEQA findings either were already made by the Board or will be requested of the Board with project approval in the future.

The Operating Budget also authorizes funding of Port labor, supplies and contractors that will be used to conduct maintenance, repair, operational, safety and minor construction and consultant projects, including minor repaving, plumbing, roofing, electrical and other utility services, fencing, landscaping, electrical and mechanical equipment repairs, inspections, minor spill clean-up, property maintenance, studies and similar activities. Such projects are exempt from the requirements of CEQA pursuant to the list of categorical exemptions in the CEQA Guidelines, including Sections 15301 to 15306, 15309, 15311, 15315, 15323, 15327 and 15330, or pursuant to another exemption.

When other types of specific activities that will be performed by Port staff are identified, staff will determine whether further environmental review is required at that time. It is anticipated that additional activities will fall into one of the following categories:

- the activity is not subject to CEQA because it will not result in a direct or reasonably foreseeable indirect physical change in the environment (Section 15060(c)(2)), because it is not a project as defined by CEQA (Sections 15060(c)(3) and 15378), or because it can be seen with certainty that there is no possibility that the activity may have a significant effect on the environment (Section 15061(b)(3)).
- the activity is covered by an existing CEQA determination that has already been approved by the Board.
- the activity requires additional CEQA evaluation. In that case, a project may be brought to the Board for approval of CEQA findings.

## **GENERAL PLAN**

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

## **OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)/ PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)**

The Owner Controlled Insurance Program (OCIP) and Professional Liability Insurance Program (PLIP) do not apply to the matters addressed by this Agenda Report as they are not capital improvement construction or design projects.

## **OPTIONS**

1. Adopt the Operating and Capital Budgets for FY 2016 as presented.
2. Adopt the Operating and Capital Budgets for FY 2016 with modifications that may be provided by the Board during the course of its deliberations, and direct staff to directly incorporate those modifications into the final adopted Budgets.
3. Do not adopt the Operating and Capital Budgets as presented, and direct staff to make revisions and return to the Board for approval of the budget at a later date in July 2015.

## **RECOMMENDATION**

It is recommended that the Board of Port Commissioners:

- Adopt the Annual Operating and Capital Budgets for the fiscal year ending June 30, 2016;
- Approve a resolution authorizing the payment of operating and other expenses, and the payment of debt service of the Port, for the fiscal year ending June 30, 2016, as described in the Budget Summary provided as Attachment A to this Agenda Report.
- Approve a resolution authorizing the payment of approximately \$133.1 million of total capital expenses, as provided in the Capital Budget for the fiscal year ending June 30, 2016 and as described in the Budget Summary provided as Attachment A to this Agenda Report.

## **Attachment A**

### Draft Budget Summary

## **Attachment B**

Budget Update #1

Budget Update #2