PORT OF OAKLAND

6/23/2022

AGENDA REPORT

PROPOSED ACTION: **Resolution:** Approval of the Annual Operating and Capital Budgets for Fiscal Year Ending June 30, 2023; Authorize the Payment of Operating and Other Expenses, the Payment of Debt Service of the Port for the Fiscal Year Ending June 30, 2023; Authorize the Payment of Approximately $112.4 Million of Total Capital Expenditures, as Provided in the Capital Budget for the Fiscal Year Ending June 30, 2023; and Authorize FY 2022 Carryover Spending in FY 2023. **(Finance & Admin.)**	
Submitted By: Julie Lam, Chief Financial Officer; Danny Wan, Executive Director	
Parties Involved: None	Amount: As presented below and in the Budget Summary (Attachment A)
EXECUTIVE SUMMARY: This agenda report requests the Board to adopt the annual Operating and Capital Budgets for the fiscal year ending June 30, 2023. By adopting the aforementioned Operating and Capital Budgets, the Board authorizes (a) the payment of operating and other expenses, (b) the payment of debt service of the Port, and (c) the payment of approximately $112.4 million of total capital expenditures. This agenda report further requests the Board to authorize FY 2022 carryover spending in FY 2023.	

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, 2023
- One-year capital budget for fiscal year ended June 30, 2023
- Five-year operating and cash flow projections for FY 2023 through FY 2027
- Five-year Capital Improvement Plan (CIP) for FY 2023 through FY 2027
- The Budget Summary (Attachment A) 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, Board reserve amounts, and capital project descriptions.

In addition to the June 23, 2022 budget presentation, Port staff has made budget presentations to the Board of Port Commissioners (Board) on March 24 and May 12, 2022. Copies of these presentations are attached (Attachment B).

Only the FY 2023 operating and capital budgets are presented for Board adoption. 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 assumption 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 or the Budget Summary.

Budget Objectives

The Port's operating and capital budgets were developed to (a) support long-term financial strength, resiliency and sustainability, (b) address near-term operational and financial challenges while maintaining reasonable flexibility and liquidity to protect against operational, financial, political and economic uncertainties, and (c) strategically identify, prioritize and plan major capital projects with a focus on regulatory compliance, health, safety, on-going or imminent revenue generating projects, asset management, and essential infrastructure investments. Key financial objectives include:

- Improve operating margin across all revenue divisions;
- Control Airport Cost per Enplanement (CPE);
- Target minimum Intermediate Lien Bond Debt Service Coverage Ratio of 1.40x;
- Project minimum June 30, 2023 General Fund ending balance that, when combined with Board reserves, are sufficient to fund operating expenses in the succeeding fiscal year;
- Maintain Board reserves, consistent with Port policy of approximately $79.4 million; and
- Maintain discipline of paying down outstanding commercial paper notes.

Key Factors

The FY 2023 operating and capital budgets were developed taking into account several key factors highlighted below, as well as updated 5-year operating and cash flow projections and an updated 5-Year CIP.

Positive Factors

- The Port's strong liquidity position comprised of both unrestricted cash and Board reserves continues to grow, remains strong and provides the Port the financial flexibility to adapt and respond to impacts of potential future COVID surges or from other unanticipated operational and financial challenges.
- Port operations are supported by a strong and diverse local economy. Historically, this favorable geographic position results in approximately 83% of the Airport traffic being origin and destination and approximately 85% of the maritime cargo destined for and from local markets. The Bay Area remains an important center of commerce, and the Port remains an important, key gateway for both domestic and international trade and a top travel destination.
- The consolidated, diversified nature of the Port's four major lines of business has proven again to be a source of financial stability. In FY 2022, anticipated revenues across all business lines are better than budget with the recovery in Aviation leading the way. More of the same is expected in FY 2023 with operating revenues budgeted to increase across all four Port revenue divisions.
- Renewed focus on infrastructure investments both at the State and federal levels means additional third-party grant funding may be available to defray some of the cost of the Port's capital improvement plan. 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.
- In the midst of these very challenging and unprecedented times, particularly at the Airport, the Port projects to end FY 2022 at a stable 2.35x Intermediate Lien debt service coverage ratio increasing to 2.40x by FY 2027. Driving these debt service coverage increases are (a) the debt service savings generated from the two bond refunding transactions executed in FY 2021, (b) projected revenue recovery at the Airport, and (c) the application of airport specific Federal aid to pay portions of operating expenses and debt service coming due in the next four fiscal years.
- Approximately $15.1 million in federal aid (CARES, and ARP Act) grants will be strategically applied in FY 2023 to reimburse the Port for eligible bond debt service payments, operating expenses, and capital expenditures. The Port plans to apply the balance of the funds in FY 2024 to pay additional debt service, operating

expenses and redeem certain outstanding bonds. Use of such funds will allow the Port to strengthen its financial position by replenishing its cash balance and remaining financially resilient in the face of a projected prolonged recovery in passenger activity at the Airport.

- The Airport's cost per enplanement (CPE) remains competitive across the three major gateway airports in the San Francisco Bay Area making operating at OAK an attractive option to air carriers. To date, passenger activity at OAK has recovered quicker than both SFO and SJC. In addition, OAK benefits from having a diversified cargo and passenger carrier business; meaning the Airport is better positioned than most airports to withstand losses in passenger carrier operations which is the segment most impacted by the COVID pandemic.
- Domestic travel is expected to recover at a much quicker pace than international travel as travel to foreign countries remain riskier than travel to domestic destinations. As an airport catering mostly to domestic travel, OAK is expected to benefit from this trend. Southwest Airlines operates the most flights at the Airport and its fall 2022 schedule aims to operate 124 peak day flights from September to November 2022. The schedule is however subject to change or cancellation depending on strength of passenger demand.
- Recent 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, Pleasanton, San Ramon, and Danville have experienced very large population growth in recent years as companies relocate to this geographical area of the East Bay.
- The pronounced use of minimum annual guarantees (MAGs), long-term and short-term fixed lease agreements means Maritime operations and revenues are less susceptible and therefore more insulated from the impact of COVID. However, congestion at the Seaport and related cancellations or reductions of ocean carrier services have resulted in lower cargo activity at the marine terminals which impact the amount of variable rent the Port collects from marine terminal operators. In FY 2023, growth in Maritime revenues will primarily be driven from increased revenues in rail terminal activities, short-term leases, scheduled rent increases from long-term lease tenants and new tenancies at the Seaport.
- Maritime anticipates first port-of-call services continuing in FY 2023 and beyond bringing incremental cargo shipments to the Seaport with the potential to grow discretionary cargo rail transport to regions outside the Bay Area.
- CRE continues to serve a vibrant and growing local market. As more of the population engages in pre-pandemic activities, opportunities to host festivals at

JLS has the potential to increase parking revenues and other variable rent in FY 2023.

- Utilities revenues continue to increase commensurate with increased electricity demand by Port tenants, and in response to electrification of drayage trucks, work vehicles and other equipment at both the Airport and Seaport.

Concerns and Considerations

- Personnel costs increase due to the addition of 24 FTEs partially offset by an increase in vacancy factor to 45 FTEs from 31 FTE's in FY 2022. Pension costs are anticipated to be 41.1% of payroll in FY 2023 before decreasing to 40.6% in FY 2024, 35.7% in FY 2025, and 33.6% in FY 2026 before an uptick to 33.7% in FY 2027.
- Focus on regulatory compliance drive operating and capital expenses in FY 2023. Ability to complete and deliver major maintenance and capital projects in a timely manner is being addressed internally at the Port through process re-engineering and additional FTE hires. Nevertheless, the ability for Port staff to complete and deliver projects remain an on-going concern. Inability to replace aging infrastructure has the potential to impact Port operations and therefore the Port's ability to generate revenues in the future.
- Tight labor market in the Bay Area coupled with wage accretion and demand for flexible work arrangements make hiring to fill existing high FTE vacancies extremely challenging. The Port must make inroads in filling existing vacancies to eliminate operational bottlenecks and to make the goal of addressing years of deferred major maintenance and capital improvement plan a reality.
- The timing and magnitude of recovery in the airline industry, the addition of new services/routes or reinstatements of prior services remain unknown. Growth in seat capacity in the domestic airline market continues to be limited due to shortages in qualified airline pilots and other crew members to operate additional flights. While recent data has shown monthly passenger traffic at OAK average about 80-83% of FY 2019 levels (the last full FY before the COVID pandemic), growth to even higher percentages will be limited for as long as airlines struggle to add seat capacity to domestic aviation markets served by OAK. Upside potential for activity-based non-airline revenues to grow such as parking, ground transportation and food/retail concessions will remain limited until airlines are able to increase seat capacity to destinations served at OAK.
- As the world struggles to control the spread of COVID, new mutations of the virus may result in vaccine-resistant new variants or more transmissible variants that evade immunity, infect and spread more rapidly both in the U.S. and abroad. Such a scenario has the potential to stifle and derail the Airport's path to recovery and also impact other segments of Port operations such as a decrease in foot traffic at

JLS or reduction in imports of container goods from major Asian trading partners as countries take actions to control the spread of COVID.

- Whereas demand for leisure travel remains strong, the same cannot be said about domestic business travel. Once a key driver of growth in passenger activity at OAK, business travel between Northern and Southern California remains lackluster when compared to pre-pandemic era. The shift to web based virtual meeting applications such as Zoom and Teams, and to permanent or more flexible remote work arrangements may change how businesses approach employee travel and the frequency of travel.
- Airport CPE must be managed to maintain OAK's competitiveness against neighboring airports: SJC and SFO.
- Supply chain issues, rampant inflationary pressures impacting commodity prices could potentially lead to higher consumer prices for finished goods, decreased consumer purchasing power, followed by an enduring economic recession driven by higher interest rates; all of which may impact all four revenue divisions at the Port.
- Congestion at the Seaport if not addressed in a timely manner may lead to lost container business as containers are off loaded at the San Pedro Ports in the Los Angeles basin and transported up to the Bay Area which may adversely limit Maritime's ability to generate over-the-MAG revenues.
- Elevated risk of potential labor and service disruptions at U.S. West Coast ports during ILWU contract negotiations.
- Potential litigation may delay incremental Maritime revenues for space rental located at the Outer Harbor Terminal area.
- A large percentage of Maritime's CIP in FY 2023 focuses on utility related improvements. Terminal improvements to address aging infrastructure need to be addressed to keep facilities in working condition to support Maritime's core revenue generating businesses. Limited debt capacity and limited funds for capital investment in Maritime are a result of the current debt burden carried by Maritime which goes away in FY 2033 when the last of the bonds issued to fund Vision 2000 are paid off.
- Geopolitical and economic friction between the United States and China remain a real concern. The potential for renewed trade war with China, Russia's invasion of Ukraine including the potential of a more direct U.S. or NATO involvement in the conflict, and prolonged impact of COVID may negatively impact global trade and future business growth at the Port.
- Continuing electrification of Port's businesses will increase electricity demand and require significant infrastructure investment to increase electricity peak capacity.

- Historical drought in California and in other western states may lead to higher occurrences of wildfire over the next 12 months which may lead to a decrease in discretionary travel to the Bay Area to the extent local air quality is compromised from wildfire smoke. Drought may also lead to higher electricity prices in the spot market and potential of rolling blackouts as hydroelectric facilities are unable to operate due to historical low levels of water in reservoirs located across the western region of the United States.
- Port property spans over 4,700 acres, and aging infrastructure must continue to be addressed. The Port’s infrastructure must also be able to accommodate industry changes such as growing vessel and aircraft size.
- Parking revenues and variable rent revenues within CRE’s portfolio of properties are expected to improve as consumers return to retail and lodging establishments but only to the extent the Bay Area can successfully manage future COVID surges.

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Proposed FY 2023 Budget

The table below summarizes the Port's proposed FY 2023 budget.

Uses and Sources of Funds
($000s)

	FY 2023 Proposed Budget
Uses of Funds	
Operating Expenses (Cash Basis)[1]	$275,144
Debt Service[2]	83,380
Capital Expenses	112,404
Restricted Cash Transfers	1,313
Other Expenses[3]	5,343
Increase to Cash Reserve	3,188
Total Uses	**$480,772**
Sources of Funds	
Cash from Operations	$408,023
Grant Reimbursement[4]	51,530
Passenger Facility Charges (PFCs)	19,275
Interest Income	1,944
Total Sources	**$480,772**

[1] Excludes depreciation, and non-cash adjustments to pension liability.
[2] Includes $10.0 million repayment of CP Notes and associated interest. Of this amount, approximately $5.0 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 0.8% in FY 2023.
[3] Includes but not limited to CP Notes and bond related fees, General Services and Lake Merritt payments to the City, retroactive CalPERS pension payments for Airport service people, adjustment of Operating Reserve, and certain deferred maintenance costs that were recorded as prior year loss contingency.
[4] The Port has not yet obtained grant funding for all capital projects included in the budget.

A comparison of the proposed FY 2023 budget to the FY 2022 budget is provided in the following table:

Comparison of Proposed FY 2023 Budget to FY 2022 Budget ($000s)

	FY 2023 Proposed Budget	FY 2022 Budget	Change in Comparison to FY 2022 Budget
Operating Revenues	$408,023	$372,680	+$35,343
Operating Expenses before Depreciation	$268,144	$255,727	+$12,417
Operating Income before Depreciation	$139,879	$116,952	+$22,927
Operating Income	$25,048	$4,595	+$20,453
Debt Service – Bonds	$73,080	$82,332	($9,252)
Debt Service – Commercial Paper (CP) Notes[5]	$10,301	$10,449	($148)
Intermediate Lien Bond Debt Service Coverage Ratio	2.17x	1.81x	+0.36x
Capital Budget	$112,404	$102,895	+$9,509
Board Established Reserves	$79,393	$76,966	+$2,427
Full Time Equivalents (FTEs)	539	515	+24
Anticipated General Fund Balance Excluding Board Reserves on June 30	$455,742	$361,665	+$94,077

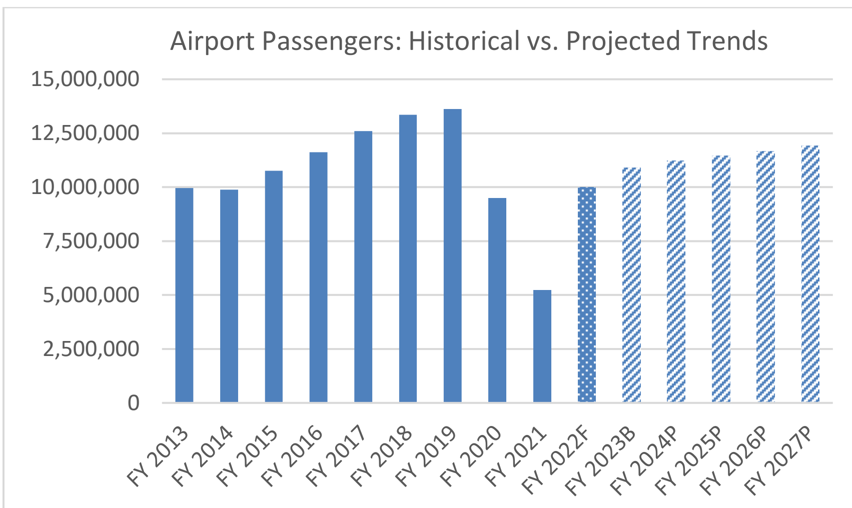
Activity Levels

While activity levels are not directly correlated to both Aviation and Maritime revenues, they are important indicators of the strength of these business lines. Airport passengers are anticipated to increase 8.9% in FY 2023 over anticipated FY 2022 levels. Seaport Full TEUs are anticipated to increase 2.0% in FY 2023 over FY 2022 anticipated levels. The table below show FY 2021 actual, FY 2022 anticipated, and FY 2023 budgeted Airport passenger and Seaport Full TEU activity levels for comparison purposes.

[5] Of the FY 2023 amount, approximately $5.1 million of CP Notes and associated interest is anticipated to be paid from PFCs. The interest rate on the CP Notes is estimated to be 0.8% in FY 2023.

	FY 2021 Actual	FY 2022 Anticipated	YoY Change	FY 2023 Proposed Budget	YoY Change
Airport Passengers	5,222,881	10,000,000	+91.5%	10,892,617	+8.9%
Seaport Full TEUs	2,010,590	1,769,823	(12.0%)	1,805,219	+2.0%

For the FY 2024-2027 projection period, Airport passenger growth is assumed to grow 3% in FY 2024 and 2% annually thereafter. Seaport Full TEUs are assumed to grow 5% per year in FY 2024 and FY 2025 before moderating to 1% per year in FY 2026 and FY 2027. The following charts show historical and projected Airport passengers and Seaport Full TEUs for FY 2013-2027.



Compound Annual Growth Rate
FY 2013-2019*: +5.4%
FY 2019*-2027 projected: -1.7%
***FY 2019 is the last full FY before the COVID pandemic**

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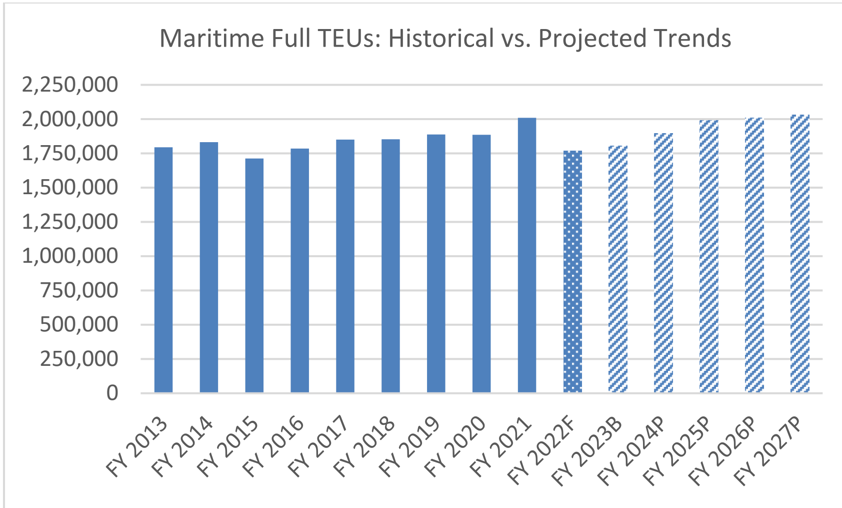


Compound Annual Growth Rate
FY 2013-2019*: +0.9%
FY 2019*-2027 projected: +0.9%
***FY 2019 is the last full FY before the COVID pandemic**

Operating Revenues

FY 2023 budgeted operating revenues of $408.0 million, are $35.3 million, or 9.5% higher than FY 2022 budget. In comparison to FY 2022 anticipated operating revenues of $398.7 million, FY 2023 operating revenues are projected to increase $9.3 million or 2.3%. The table below provides FY 2021 actual, FY 2022 budget, FY 2022 anticipated, and FY 2023 budgeted operating revenues by business line for comparison purposes.

Summary of Operating Revenues
($000s)

	FY 2021 Actual	FY 2022 Budget	FY 2022 Anticipated	FY 2023 Proposed Budget	Change in Comparison to FY 2022 Budget	Change in Comparison to FY 2022 Anticipated
Aviation	$149,024	$156,349	$182,068	$185,778	+18.8%	+2.0%
Maritime	169,412	176,930	176,140	179,689	+1.6%	+2.0%
CRE	13,825	14,633	15,133	16,657	+13.8%	+10.1%
Utilities	21,880	24,768	25,348	25,899	+4.6%	2.2%
Total	**$354,140**	**$372,680**	**$398,689**	**$408,023**	**+9.5%**	**+2.3%**

FY 2023 budgeted Aviation revenues assume (i) 8.9% increase in passengers compared to FY 2022 anticipated actuals, (ii) higher terminal rental revenues due to (a) increases in year-over-year terminal cost center capital and operating expenses including higher security and custodian costs, and (b) increase in leased airline space in Terminal 1, (iii) lower airfield revenues to reflect a decrease in airfield area net expenses driven by a combination of lower airfield cost center capital and operating expenses and higher non-airline airfield area revenue off-sets, (iv) higher parking and ground transportation revenues vis-à-vis higher 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 increase from FY 2022 anticipated actuals due to increased passenger traffic in the terminal building. However, because the Airport plans to administer the airport concessionaire relief program outlined in the American Rescue Plan on behalf of the FAA for the benefit of eligible concessionaires operating at the Airport, a substantial portion of terminal concession revenues will be reduced and replaced with grant revenue booked as non-operating revenues rather than operating revenues.

FY 2023 budgeted Maritime operating revenues assume Full TEUs are 2.0% higher and Empty TEUs are 2.0% higher in comparison to FY 2022 anticipated actuals, reflecting modest strength in global trade flows. Maritime revenues are based on assumed strengthening cargo volumes, continued first port-of-call services, projected cargo shifts between marine terminals, scheduled rent increases, and anticipated new tenancies.

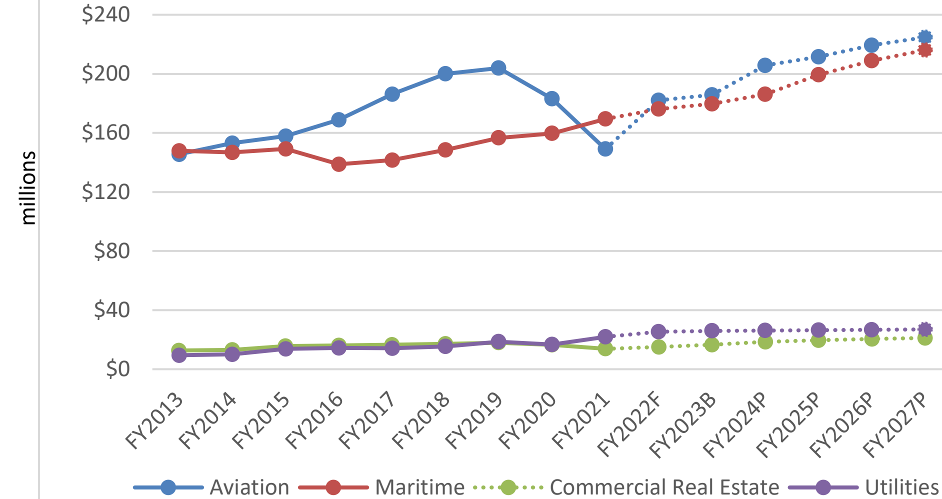
FY 2023 budgeted CRE revenues are based on increased travel and indoor dining transactions leading to higher assumed parking revenues, percentage rent revenues, new leases and scheduled rent adjustments.

FY 2023 budgeted Utilities revenues are based on increased sales of electricity to existing Port tenants and new tenants.

FY 2024-2027 Operating Revenue Projections

Port-wide operating revenues are projected to increase from $408.0 million in FY 2023 to $488.9 million in FY 2027, for a forecasted compound annual growth rate of 4.6% 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, and lease revenues based on existing and anticipated lease terms. The chart below shows historical and projected revenues by business line for FY 2013-2027.

Port Operating Revenues: Historical vs. Projected Trends



* FY 2022 Anticipated Revenues

Compound Annual Growth Rate

	FY 2013-19*	FY 2019*-27 Projected
Aviation	5.8%	1.2%
Maritime	1.0%	4.1%
CRE	5.9%	2.1%
Utilities	12.0%	4.7%
Port-wide	3.9%	2.6%

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

Please see pages 29-85 of the Budget Summary book for more information on the Port's FY 2023 operating revenue budget and FY 2024-2027 operating revenue projections.

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Operating Expenses

Overall, Port operating expenses (excluding depreciation) are budgeted in FY 2023 at $268.1 million, an increase of $12.4 million or 4.9% in comparison to FY 2022 budget as summarized in the table below. The change is driven primarily by anticipated increases in Aviation security costs, personnel costs, Utilities cost of sales, Maritime major maintenance, parking and ground transportation, OAB mitigation cost share with the City, port wide maintenance and repairs, insurance premiums, and consulting services.

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

	FY 2021 Actual	FY 2022 Budget	FY 2023 Proposed Budget	Change in Comparison to FY 2022 Budget
Personnel Costs	$110,135	$127,100	$129,589	$2,489
Contractual Services	68,663	95,343	102,364	7,021
General & Administrative	15,838	21,940	23,463	1,523
Supplies	4,622	5,795	6,063	269
Utility Cost of Sales	10,402	14,647	16,283	1,636
Departmental Credits[6]	(7,775)	(9,097)	(9,619)	(522)
Total	**$201,885**	**$255,728**	**$268,144**	**+$12,416 or +4.9%**

Personnel Costs

Personnel costs are approximately 48% of the Port's operating expenses (before depreciation) and are budgeted to be $129.6 million, an increase of $2.5 million or 2.0% in comparison to FY 2022 budget. Personnel cost increases reflect the addition of 24 FTEs leading to higher salaries and higher active health care costs, as summarized in the table below. FY 2023 budgeted salaries are $67.8 million, or $5.7 million higher reflecting increased staffing and salary adjustments based on current labor MOUs (Cost of living adjustments and step increases). The Port's employer pension expense is anticipated to decrease $5.2 million to $23.6 million due to a budgeted $7.0 million pension credit (GASB 68) in FY 2023 and together with a decrease in pension rates from approximately 41.9% to 41.1% more than offset higher salaries from anticipated increases in staffing levels. Medical costs for retirees are budgeted at $9.5 million and projected to increase $0.2 million, reflecting updated annual required contributions based on the most recent

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

actuarial report. Medical costs for active employees are budgeted at $11.3 million and projected to increase by $0.6 million reflecting actual medical premiums on January 1, 2022, an assumed increase in medical premiums of 5.0% on January 1, 2023, and updated/assumed employee-elected coverages. The personnel budget also reflects a vacancy factor of 45 FTEs to reflect normal attrition. Other changes in personnel costs are based on recent experience, recent actuarial reports, or known or assumed rate increases.

Summary of Personnel Costs
($000s)

Personnel Costs	FY 2021 Actual	FY 2022 Budget	FY 2023 Proposed Budget	Change in Comparison to FY 2022 Budget
Salaries and Wages	$58,906	$67,767	$73,455	$5,688
Pension	23,964	28,790	23,608	(5,182)
Health Care – Retiree	6,007	9,350	9,500	150
Health Care – Active	9,099	10,726	11,284	558
Overtime	2,206	3,886	4,395	509
Workers Compensation	3,595	1,870	2,250	380
Vacation/Sick Leave Accruals	3,992	1,919	2,127	208
Other[7]	2,367	2,791	2,969	178
Total	**$110,135**	**$127,100**	**$129,589**	**+$2,489 or +2.0%**

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[7] 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.

Non-Personnel Operating Expenses

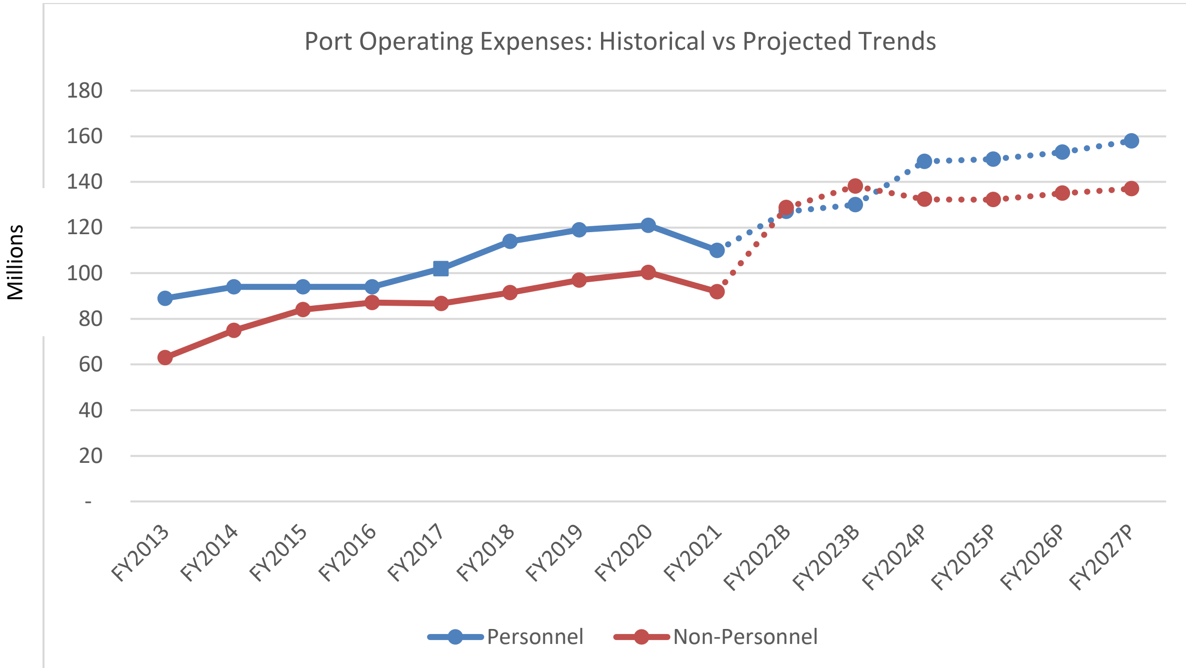
Non-personnel costs are budgeted in FY 2023 to increase by $9.9 million, or 7.7% higher than the FY 2022 budget. Eight expenses, as listed in the table below, drive the increase in FY 2023 non-personnel costs.

Significant Non-Personnel Cost Increase
($000s)

Item	Change in Comparison to FY 2022 Budget
Aviation Security	$3,033
Utilities Cost of Sales	1,900
Maritime Major Maintenance	1,805
Parking and Ground Transportation	1,464
OAB Mitigation Cost Share	703
Maintenance and Repairs	689
Insurance Premiums	683
Financial and Environmental Consultants	577
All Other (Net Decrease)	(927)
Total Non-Personnel Cost Increase	**$9,927**

FY 2024-2027 Operating Expense Projections

Port-wide operating expenses (excluding depreciation) are projected to increase from $268.1 million in FY 2023 to $295.0 million in FY 2027, for a forecasted compound annual growth rate of 2.4%. The forecast assumes FTEs increase by 18 to 557 in FY 2024, salary adjustments based on anticipated labor MOUs, medical premiums increasing 5.0%, pension costs decreasing modestly to 40.6% of wages in FY 2024 and decreasing significantly to 35.7% in FY 2025 and 33.6% in FY 2026 before a slight uptick to 33.7% in FY 2027, and no additional changes in unfunded pension or retiree medical liability. This results in personnel costs increasing at a compound annual rate of 5.1% from FY 2023 through FY 2027. Non-personnel costs are assumed to decline nominally at a compound annual rate of -0.3% between FY 2023 and FY 2027. Parking and ground transportation expenses at the airport increase commensurately with the recovery of passenger traffic in FY 2023 and beyond. Major maintenance anticipated at $6.6 million in FY 2023 then fluctuates between to $2.7 to $3.5 million in the subsequent years while consulting increases in FY 2024 before tapering off afterwards offsetting an assumed general non-personnel increase of 3% per year. The chart below shows historical and projected personnel and non-personnel operating expenses for FY 2023-2027. Please see pages 29-85 of the Budget Summary book for more information on the Port's FY 2023 operating expense budget and FY 2024-2027 operating expense projections.



	Compound Annual Growth Rate	
	FY 2013-19*	FY 2019*-27 Projected
Personnel	5.0%	3.6%
Non-Personnel	7.5%	4.4%
Port-wide	6.0%	4.0%

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

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City Payments

The FY 2023 budget also includes the following payments to the City. These payments are included as either operating expenses or non-operating expenses in the budget.

City Payments
($000s)

Item	FY 2023 Proposed Budget
Aircraft Rescue and Fire Fighting Services	$6,559
General Services	1,522
Lake Merritt Maintenance	1,354
Maritime & Jack London Square Police Services	813
Landscape Lighting Assessment District	700
Personnel, City Clerk and KTOP Services	394
Treasury Services	386
Community Facilities District (CFD) Payment to City	300
Jack London Improvement District	177
Edgewater Median Maintenance[8]	60
Fireboat/OPD Patrol Boat Maintenance	43
Computer Aided Dispatch (CAD) Reimbursement to City	13
Total	**$12,321**
Parking and Utility Taxes	8,176
Total including Taxes	**$20,497**

Capital Budget

Capital budget authorization totaling $112.4 million is requested from the Board for FY 2023, which includes the capital projects listed in the table on the following page. The amounts shown in the table are expected expenditures in FY 2023 and do not include prior or subsequent fiscal year expenditures for projects spanning multiple fiscal years.

The capital budget has been developed to match staffing resources available based on a prioritization of staff resources for both expense and capital improvements. The FY 2023 budget reflects prioritization of health and life safety, regulatory compliance, policy and contractual obligations, preservation and generation of revenue, asset management and essential infrastructure investments. Engineering staff have applied a resource allocation planning process in collaboration with the Revenue Divisions in order to realistically

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

estimate the amount of work that can be accomplished in FY 2023 taking into account targeted staffing resources.

FY 2023 Capital Budget

($millions)

FY 2023 Capital Budget -- Projects Summary	FY 2023 Capital Budget ($ millions)	%
Airfield Projects (primarily Taxiways)	$21.60	19.2%
Maritime (Seaport) Utility Projects	20.3	18.1%
Aviation Security Projects	17.1	15.2%
Aviation Utility Projects	9.5	8.5%
Aviation Terminal Projects	8.7	7.7%
Marine (Seaport) Terminals Projects	7.3	6.5%
Aviation Ground Access & Parking Projects	4.7	4.2%
CRE: Various Building & Tenant Improvements	4.7	4.2%
Aviation Capital Equipment	4.6	4.1%
Maritime (Seaport) Capital Equipment	3.2	2.8%
Information Technology (IT) Equipment & Systems	2.2	2.0%
Airfield Perimeter Dike Improvements	2.1	1.9%
Maritime Crane Upgrades	2.0	1.8%
Portwide Miscellaneous Facilities Projects	1.2	1.1%
Utility Electric Projects	0.8	0.7%
Aviation Facilities Maintenance Projects	0.6	0.5%
Maritime (Seaport) Roadways Projects	0.6	0.5%
Middle Harbor Shoreline Park (MHSP) Improvements	0.5	0.4%
Maritime: Various Air Quality Initiatives	0.5	0.4%
Seaport Logistics Complex Projects	0.2	0.2%
Total	**$112.4**	**100%**

Provided below is a summary of the Port's FY 2023 Capital Budget by business line and anticipated funding sources.

FY 2023 Anticipated Capital Expenses – Uses of Funds by Business Line
($ millions)

	FY 2023 Capital Budget
Aviation	69.4
Maritime	34.7
Utilities	0.8
CRE	5.0
Support	2.5
Total	**$112.4**

FY 2023 Anticipated Capital Expenses – Sources of Funds
($ millions)

	FY 2023 Capital Budget
Aviation Grants	18.8
Maritime Grants	13.5
PFC Pay-Go	14.2
LCFS Funds	2.5
Cash	63.4
Total	**$112.4**

Please see pages 87-113 of the Budget Summary book for additional information on the Port's FY 2023 Capital Budget and updated 5-Year CIP.

Prior Fiscal Year Carryover Capital Spending

Board authorization is requested to carry-over funding into FY 2023 for certain capital projects included in the Board-approved FY 2022 Capital Budget. This authorization is for project costs that are anticipated to be spent in the last four months of FY 2022 (March-June) but for reasons beyond the Port's control, may be delayed. Therefore, if spending on such projects does not materialize prior to June 30, FY 2022 funding will carry forward and remain available in FY 2023.

Funding for these carry-over projects is not included in the FY 2023 Capital Budget as these projects are assumed to have been funded in the prior fiscal year (FY 2022) and are included in the 5-Year CIP (FY 2022- 2026). Whether the actual spending occurs in FY 2022 or FY 2023 has no impact on Port finances or Finance Department's projections of ending cash balances during the five-year projection period.

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Board-Established Reserves

Pursuant to Board policy, the following reserves will continue to be maintained for FY 2023:

Board-Established Reserves
($000s)

	FY 2023
Operating Reserve[9]	$34,393
Capital Reserve	15,000
Port Bond Reserve	30,000
Total Reserves	**$79,393**

Please see pages 121-122 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 2023 are provided in the table below.

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

	FY 2023
Net Revenues[10]	$153,376
Bond Debt Service (Senior & Intermediate)	$73,079
Less: (bonds paid with CARES/ARP allocations)	(2,557)
Total	**$70,522**
Bond Intermediate Lien Debt Service Coverage Ratio[11]	**2.17x**

In FY 2023, the Port's debt service payment on its bonds is $73.1 million. However, only $70.5 million of revenue bond debt service will be paid from Port revenues while the

[9] Established at 12.5% of Operating Budget (excluding depreciation).
[10] 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.
[11] 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.

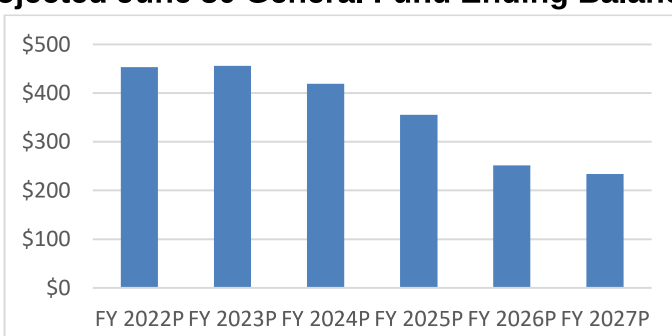
remainder (or $2.6 million) will be paid from the Port's allocation of CARES and ARP funds. In FY 2023, planned CP debt service (not included in the table above) will be paid from a combination of Port revenues and PFCs.

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 2023, the Intermediate Lien debt service coverage ratio is projected to be 2.17x based on the methodology specified in the Port's Intermediate Lien Bond Indenture. Please see pages 115-120 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, 2022 through June 30, 2027. The projected General Fund balance reflects the proposed FY 2023 operating and capital budgets, as well as the Port's updated 5-year financial forecast, including the 5-year CIP. Please see pages 121-125 of the Budget Summary book for additional information on cash flow.

Projected June 30 General Fund Ending Balance[12]



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

OTHER FINDINGS AND PROVISIONS

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:

☒ Exempt from CEQA because it is not a "Project" under CEQA Guidelines Section 15378(b)(4).

☐Other/Notes:

BUDGET

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

☒ Operating ☒ Non-Operating ☒ Capital

Analysis: The proposed action would establish FY 2023 operating and capital budgets.

STAFFING

☐No Anticipated Staffing Impact.

☒ Anticipated Change to Budgeted Headcount.

Reason:

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

Reason: The Proposed action would set FY 2023 staffing level at 539 FTEs, however, a vacancy factor of 45 FTEs to reflect normal attrition, effectively reduces active staffing levels to 494 FTEs.

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:	**LIVING WAGE** (City Charter § 728): Applies? No (No Covered Agreement) – proposed action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage requirements. ☐ Additional Notes:
SUSTAINABLE OPPORTUNITIES: Applies? **No.** Reason: Port staff will review the Port's 2000 Sustainability Policy and complete the Sustainability Opportunities Assessment Form, as necessary, for operating expenses and capital projects included in the FY 2023 operating and capital budgets.	**GENERAL PLAN** (City Charter § 727): Conformity Determination: No Project – conformity determination not required because proposed action does not change use of or make alterations to an existing facility or create a new facility.

<u>STRATEGIC PLAN</u>. The proposed action would help the Port achieve the following goal(s) and objective(s) in the Port's Strategic Business Plan: ☒ Grow Net Revenues ☒ Modernize and Maintain Infrastructure ☒ Improve Customer Service ☒ Pursue Employee Excellence ☒ Strengthen Safety and Security ☒ Serve Our Community ☒ Care for Our Environment

Attachment A

Draft Budget Summary

Attachment B

Final Budget Presentation

Budget Update #2

Budget Update #1