PORT OF OAKLAND

July 7, 2023

Board of Port Commissioners of the City of Oakland
Oakland, California

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SUBJECT: Adopted Operating and Capital Budgets for Fiscal Year Ending June 30, 2024

Dear Board of Port Commissioners:

On behalf of Port staff, I am pleased to provide this Budget Summary, which contains the Port's:

- One-year operating budget for fiscal year ending June 30, 2024;
- One-year capital budget for fiscal year ending June 30, 2024;
- Five-year operating forecast for FY 2024 through FY 2028;
- Five-year Capital Improvement Plan (CIP) for FY 2024 through FY 2028;
- 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.

The FY 2024 operating and capital budgets were adopted by the Board on July 6, 2023. Subsequent years of operating and cash flow projections and the 5-Year CIP are informational and presented for planning purposes only.

OVERVIEW

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, recruitment 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, fulfilling grant project delivery commitments, progress toward zero emissions operations, 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 the Airport's Cost per Enplanement (CPE);
- Target minimum Intermediate Lien Bond Debt Service Coverage Ratio (DSCR) of 1.40x;
- Project minimum June 30, 2024 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 $83.1 million; and
- Maintain discipline of paying down outstanding commercial paper notes.

Key Factors

The FY 2024 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 from unanticipated operational and financial challenges.
- On June 13, 2023, the Port completed the extension of its $200 million direct pay letter of credit (LOC) facilities supporting its commercial paper (CP) program. As of July 7, 2023, $32.5 million in CP remains outstanding. The extended LOCs have a stated expiration date of December 31, 2026 and provides the Port the option to draw on the facilities to debt fund future capital expenditures on an interim basis prior to issuing long-term revenue bonds.
- The Port's long-term credit ratings remain strong across all three major rating agencies. Moody's, S&P, and Fitch rate the Port's senior lien bonds A1, A+, A+, respectively. Intermediate lien bonds are rated one notch lower by each of the three rating agencies.
- Port operations are supported by a strong and diverse local economy. Historically, this favorable geographic position results in a large percentage of the Airport traffic being origin and destination and a large percentage of the maritime cargo destined for or 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 2023, anticipated revenues across all business lines are in line or better than budget with the recovery in Aviation leading the way. More of the same is expected in FY 2024 with aviation operating revenues budgeted to be the major driver of operating revenue growth across all four Port revenue divisions.
- Renewed focus on infrastructure investments both at the State of California (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. Most grants available are for port infrastructure improvements in areas to support zero emissions transition goals and to address supply chain challenges.
- The Port projects to end FY 2023 at a stable 2.71x Intermediate Lien debt service coverage ratio and between 2.26x and 2.64x over the next five fiscal years. Positive factors impacting DSCR include (a) the debt service savings generated from the two bond refunding transactions executed in FY 2021,

(b) projected debt service reductions in connection with an anticipated redemption of outstanding bonds in FY 2024 funded with COVID relief grants, (c) increased passenger activity at the Airport, (d) anticipated electric rate and energy use increases at both the Seaport and Airport, and (e) a projected turn-around in Maritime TEU activity starting in FY 2025. Negative factors impacting DSCR ratios include (i) full to partial elimination of COVID relief grant offsets to both bond debt service and operations and maintenance expenses, and (ii) general year-over-year increases in operations and maintenance expenses.

- Approximately $22.0 million in federal aid (CARES, and ARP Act) grants will be strategically applied in FY 2024 to reimburse the Port for eligible bond debt service payments, operating expenses, and for costs in connection with an anticipated redemption of outstanding Port revenue bonds. Use of such funds will allow the Port to strengthen its financial position by replenishing its cash balance and therefore carrying a higher balance than otherwise possible.
- 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.
- Passenger activity levels at the Airport are forecasted to approach 88% of pre-pandemic levels. This represents a continuation of the strong recovery observed at OAK since March 2021. New nonstop services were added, restored, or announced throughout FY 2023 by several passenger airlines to destinations in Baltimore, Nashville, Atlanta, San Salvador, Philadelphia, and Newark/New York among others. FY 2024 is expected to capture a full year's activity from these nonstop services.
- Concession revenues are expected to benefit from increased passenger traffic at the Airport as well as increased retail/food and beverage offerings inside the two terminal buildings. A total of eight retail and six food and beverage units are expected to open in FY 2024. Also anticipated to benefit from increased passenger activity are parking and ground transportation revenues.
- 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, 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.
- 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 full impact of COVID or other unanticipated events. However, residual COVID-related congestion at the Seaport and high inventory in the supply chain on the U.S. West Coast, including the Seaport, affected the flow of containers through the Seaport; some vessel calls skipped the Seaport in favor of the other trade gateways. In FY 2024, growth in Maritime revenues will primarily be driven from increased revenues in non-marine terminal sources such as short-term leases, scheduled rent increases from long-term lease tenants and new tenancies at the Seaport.
- CRE continues to serve a vibrant and growing local market. Revenues are expected to increase due to rent increases on restaurant, retail and office units.
- Excluding revenues from sales of Low Carbon Fuel Standard (LCFS) credits and estimated lower shore power revenues, other Utilities revenues are expected 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 11 FTEs and salary adjustments based on current labor MOUs (Cost of living adjustments and step increases) partially offset by an increase in vacancy factor to 53 FTEs from 45 FTEs in FY 2023. Pension costs are anticipated to be 39.8% of payroll in FY 2024 before decreasing to 32.5% in FY 2025, 28.7% in FY 2026, 27.2% in FY 2027, and 25.3% in FY 2028.
- Focus on regulatory compliance, meeting grant-funded project delivery deadlines, major maintenance including contractually obligated work on tenant properties, and vacancy reduction efforts account for a sizable portion of the operating and capital expenses in FY 2024. Ability to deliver maintenance and capital projects is being addressed internally at the Port through process re-engineering, continuous efforts to fill vacancies, and hiring additional FTEs. Nevertheless, delivering all the projects desired remains an on-going challenge. Not replacing aging infrastructure or investing in zero emission infrastructure to meet future air quality and emission reduction regulatory guidelines has the potential to impact Port operations and the Port's ability to generate revenues in the future.
- Recent layoffs by private companies in the San Francisco Bay Area presents an opportunity for the Port to make inroads on efforts to reduce the number of vacant positions Port-wide. The tight labor market coupled with wage accretion and demand for flexible work arrangements has made filling the existing high number of vacancies challenging. The Port must take all steps necessary to fill existing vacancies, and vacancies created from normal attrition due to retirement or separation, in order to eliminate operational bottlenecks and to make the goal of addressing years of deferred major maintenance and the capital improvement plan a reality.
- Growth in Airport passenger activity has moderated relative to the growth experienced in the early stages of recovery. Growth in seat capacity in the domestic airline market continues to be limited due to delays in airplane deliveries, shortages in qualified airline pilots and crew members to operate additional flights. While recent data has shown monthly passenger traffic at OAK average about 82-89% of FY 2019 levels (the last full FY before the COVID pandemic), growth to even higher percentages will be limited for as long as seat capacity to domestic and international aviation markets served by OAK remains below pre-pandemic levels.
- Passenger recovery at OAK may be derailed by unresolved labor disputes between pilots and airline management. Both Southwest Airlines (Southwest) and FedEx have not yet reached a labor agreement with pilots after months of negotiations. In addition to pay increases, pilots are looking for better schedules and other working condition improvements. While a strike is unlikely due to federal laws prohibiting a strike absent approval of a mediation board, prolonged and contentious negotiations may result in actions taken short of a strike that may adversely impact airline operations, including flight schedules, leading to cancellations across the entire system. Such an event may adversely impact OAK due to both airlines' large presence at OAK.
- Passenger travel at OAK was substantially disrupted and many flights were cancelled due to the crew scheduling crisis experienced by Southwest in December 2022. Southwest has since announced its intention to spend $1.3 billion on upgrades and maintenance to the technology systems responsible for the most recent scheduling crisis, but understandably, that will take some time to implement.
- On May 11, 2023, the federal COVID-19 public health emergency declaration ended. COVID vaccines and treatments remain available. While the virus has not been fully eradicated, the virus can be better managed with available tools and resources to better protect individuals and communities. Given past history, new mutations of the virus may result in new vaccine-resistant 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 impact Port operations in the future.

- 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 days. 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.
- Through the first nine months of FY 2023, cargo landed weight for both FedEx and UPS are below budget expectations. According to FedEx, this weakness in cargo operations is expected to continue through the fourth quarter of 2023 due to lower customer demand for U.S. freight products. In response, FedEx is expected to manage capacity to lower demand levels and may take further actions including reducing flight hours at certain FedEx facilities. Given the large FedEx presence at OAK, any material disruption to cargo activity may reduce landing fee revenues the Port collects in FY 2024.
- The Airport's CPE must be managed to maintain OAK's competitiveness against neighboring airports: SFO and SJC.
- Inflation is expected to remain at elevated levels in FY 2024. High rate of inflation reflects high consumer prices for finished goods and services which have the effect of eroding consumer purchasing power. Federal Reserve Bank actions of raising interest rates to fight inflation may push the economy over the edge into an economic recession, which depending on severity, could adversely impact many aspects of Port operations, including the Port's ability to generate budgeted revenues in a recessionary period.
- The flow of containers through the Seaport continues to be adversely impacted by low consumer demand for imported goods and high inventories in the West Coast supply chain. If circumstances do not reverse themselves, the Maritime division's opportunity to generate over-the-MAG variable rent will be limited.
- ILWU contract negotiation at U.S. West Coast ports was cited as a reason for the decline in cargo throughput at West Coast ports. Shipping lines may continue to reduce service to West Coast ports to the extent future labor issues remain a point of concern. As a second port of call seaport, the Port is adversely impacted whenever shipping lines skip calling at the San Pedro Bay ports as discretionary cargo destined to the Seaport is moved to other ports located in the Gulf of Mexico or the East Coast.
- A large percentage of Maritime's CIP in FY 2024 focuses on utility-related improvements. Terminal improvements to address aging infrastructure also 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, or for grant matching purposes, are a result of the debt burden carried by Maritime through FY 2033 when the last of the bonds issued to fund Vision 2000 are paid off.
- There are major pavement projects the Port is obligated to perform pursuant to terms agreed to under existing Seaport lease agreements or to address unsuitable pavement conditions. The Port's ability to perform pavement work in FY 2024 is limited by its ability to hire contractors with remaining capacity to take on additional work and the ability to schedule work around tenant operations. Not completing such projects on a timely basis could lead to higher costs in the future as pavement is degraded further and will require more expensive repair.
- Geopolitical and economic friction between the United States and China remain a concern. The potential for a 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, 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 electrical peak capacity.

- The Port is becoming increasingly dependent on buying electricity in the spot market as long-term contracts have expired and replacement contracts are not available. This dynamic is particularly troublesome as the price of electricity in the spot market remains very expensive.
- The abundant rain in the West Coast over the last six months has fueled unchecked vegetation growth statewide. Excessive dry vegetation during the dry months of the year may lead to higher occurrences of wildfire over the next six months. Such wildfires may lead to a decrease in discretionary travel to the Bay Area to the extent local air quality is compromised from wildfire smoke.

FY 2024 BUDGET

Table 1 summarizes the Port's FY 2024 budget.

TABLE 1
USES AND SOURCES OF FUNDS FY 2024
($000s)

	FY 2024 BUDGET
Uses of Funds	
Operating Expenses (Cash Basis)[1]	$305,101
Debt Service[2]	84,154
Capital Expenses	163,708
Other Expenses[3]	5,312
Total Uses	**$558,275**
Sources of Funds	
Cash from Operations	$424,324
Grant Reimbursement[4]	58,522
Available Cash Balance	49,819
Passenger Facility Charges (PFCs)	14,475
Interest Income	10,464
Restricted Cash Transfer	671
Total Sources	**$558,275**

[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 3.9% in FY 2024.

[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 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.

Table 2 shows a comparison of the FY 2024 budget to the FY 2023 budget.

TABLE 2
A COMPARISON OF FY 2024 BUDGET TO FY 2023 BUDGET ($000s)

	FY 2024 Budget	FY 2023 Budget Adjusted for GASB 87[5]	Change in Comparison to Adjusted FY 2023 Budget
Operating Revenues	$412,971	$396,979	+$15,992
Operating Expenses before Depreciation	$297,101	$268,144	+$28,957
Operating Income before Depreciation	$115,870	$128,835	-$12,965
Operating Income	$6,412	$14,004	-$7,592
Debt Service – Bonds	$73,080	$73,080	—
Debt Service – Commercial Paper (CP) Notes[6]	$11,074	$10,301	+$773
Intermediate Lien Bond Debt Service Coverage Ratio	2.26x	2.36x	-0.10x
Capital Budget	$163,708	$112,404	+$51,304
Board Established Reserves	$83,138	$79,393	+$3,745
Full Time Equivalents (FTEs)	550	539	+11
Anticipated General Fund Balance Excluding Board Reserves on June 30	$475,587	$455,742	+$19,845

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 increase 4.3% in FY 2024 over anticipated FY 2023 levels. Seaport Full TEUs are anticipated to increase 3.0% in FY 2024 over FY 2023 anticipated levels. Table 3 shows FY 2022 actual, FY 2023 anticipated, and FY 2024 budgeted Airport passenger and Seaport Full TEU activity levels for comparison purposes.

TABLE 3 AIRPORT PASSENGER AND SEAPORT TEU ACTIVITY

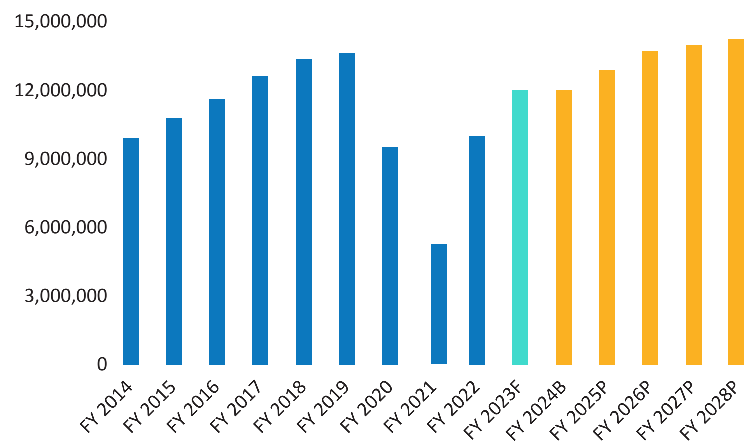
	FY 2022 Actual	FY 2023 Anticipated	YoY Change	FY 2024 Budget	YoY Change
Airport Passengers	9,976,766	11,490,659	+15.1%	11,981,878	+4.3%
Seaport Full TEUs	1,849,380	1,548,046	(16.3%)	1,594,487	+3.0%

[5] FY 2023 Adopted Budget included revenues of $408.023 million and operating income of $25.048 million. GASB 87 information was not available at time of budget preparation and Board adoption.

[6] Of the FY 2024 amount, approximately $5.2 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 3.9% in FY 2024.

For the FY 2025-2028 projection period, Airport passenger growth is assumed to grow 7% in FY 2025, 6.5% in FY 2026 and 2% annually thereafter. Seaport Full TEUs are assumed to grow 2% in FY 2025 and moderating to 1% in FY 2026 through FY 2028. The following charts show historical and projected Airport passengers and Seaport Full TEUs for FY 2014-2028.

AIRPORT PASSENGERS: Historical vs. Projected Trends

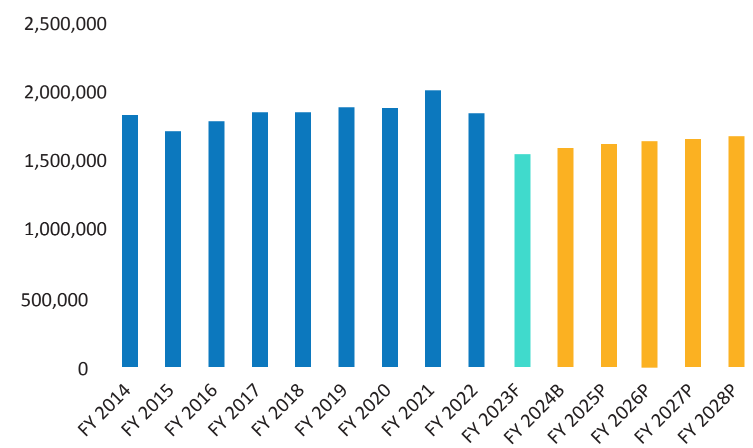


COMPOUND ANNUAL GROWTH RATE

FY 2014-2019*:	**+6.6%**
FY 2019*-2028 projected:	**0.5%**

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

MARITIME FULL TEUs: Historical vs. Projected Trends



COMPOUND ANNUAL GROWTH RATE

FY 2014-2019*:	**+0.6%**
FY 2019*-2028 projected:	**-1.3%**

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

Operating Revenues

FY 2024 budgeted operating revenues of $413.0 million, are $16.0 million, or 4.0% higher than FY 2023 budget adjusted for GASB 87. In comparison to FY 2023 anticipated operating revenues of $404.7 million, FY 2024 operating revenues are projected to increase $8.2 million or 2.1%. Table 4 shows FY 2022 actual, FY 2023 budget adjusted for GASB 87[7], FY 2023 anticipated, and FY 2024 budgeted operating revenues by business line for comparison purposes.

TABLE 4
SUMMARY OF OPERATING REVENUES ($000s)

	FY 2022 Actual	FY 2023 Budget Adjusted for GASB 87[7]	FY 2023 Anticipated	FY 2024 Budget	Change in Comparison to Adjusted FY 2023 Budget	Change in Comparison to FY 2023 Anticipated
Aviation	$190,160	$185,599	$192,406	$202,817	+9.3%	+5.4%
Mariltime	172,015	170,637	171,500	170,548	-0.0%	-0.5%
CRE	13,999	14,844	14,845	14,997	+1.0%	+1.0%
Utilities	25,836	25,899	25,995	24,610	-5.0%	-5.3%
Total	**$402,009**	**$396,979**	**$404,746**	**$412,971**	**+4.0%**	**+2.0%**

FY 2024 budgeted Aviation revenues assume (i) 4.3% increase in passengers compared to FY 2023 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, custodian, personnel and utilities costs, and (b) increase in leased airline space in Terminal 1, (iii) lower airfield cost center revenues in comparison to FY 2023 anticipated actuals due to a large true-up credit that more than offsets increases in FY 2024 capital and operating expenses in the airfield area, (iv) higher parking and ground transportation revenues from 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 2023 anticipated actuals due to increased passenger traffic in the terminal building and because a substantial portion of FY 2023 terminal concession operating revenues were reduced and replaced with non-operating grant revenue from 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.

FY 2024 budgeted Maritime operating revenues assume Full TEUs are 3.0% higher and Empty TEUs are 3.0% higher in comparison to FY 2023 anticipated actuals, reflecting the start of a recovery from the decline experienced in FY 2022 and FY 2023 to date. Maritime revenues are based on assumed strengthening cargo volumes, projected cargo shifts between marine terminals, scheduled rent increases, and anticipated new tenancies.

FY 2024 budgeted CRE revenues assume increased restaurant, retail and office rents due to new leases, and scheduled rent adjustments.

FY 2024 budgeted Utilities revenues are based on increased sales of electricity to existing Port tenants and new tenants offset by lower estimated shore power revenues.

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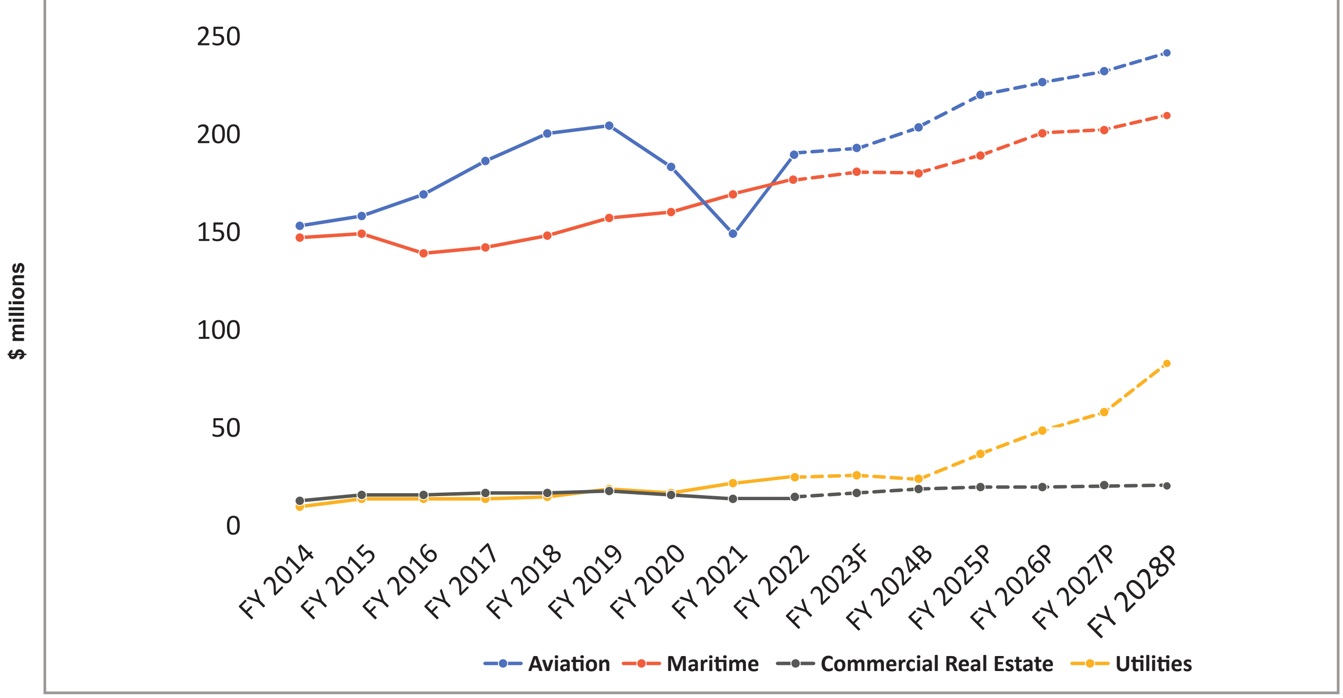
[7] FY 2023 Adopted Budget included Total Operating Revenues of $408.023 million (Aviation revenues of $185.778 million, Maritime revenues of $179.689 million, CRE revenues of $16.657 million, and Utilities revenues of $25.899 million). GASB 87 information not available at the time of budget preparation and Board adoption

FY 2025-2028 Operating Revenue Projections

Port-wide operating revenues are projected to increase from $413.0 million in FY 2024 to $535.2 million in FY 2028, for a forecasted compound annual growth rate of 6.7% 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 chart below shows historical and projected revenues by business line for FY 2014-2028.

PORT OPERATING REVENUES (excluding GASB 87): Historical vs. Projected Trends



COMPOUND ANNUAL GROWTH RATE

	FY 2014-19*	FY 2019*-28 Projected:
Aviation	5.9%	1.9%
Maritime	1.3%	3.3%
CRE	6.5%	1.7%
Utilities	12.9%	18.1%
Port-wide	4.2%	3.8%

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

Operating Expenses

Overall, Port operating expenses (excluding depreciation) are budgeted in FY 2024 at $297.1 million, an increase of $29.0 million or 10.8% in comparison to FY 2023 budget as shown in Table 5. The change is driven by Port wide initiatives to address aging infrastructure, deferred maintenance and repairs, increases in cost of commodities, Seaport and Airport planning studies, parking and ground transportation operations, personnel cost increases, consulting, airport security, and insurance premiums.

TABLE 5
SUMMARY OF OPERATING EXPENSES (excl. Depreciation)
($000s)

	FY 2022 Actual	FY 2023 Budget	FY 2024 Budget	Change in Comparison to FY 2023 Budget
Personnel Costs	$90,270	$129,589	$134,393	$4,805
Contractual Services	75,790	102,364	115,043	12,679
General & Administrative	16,321	23,463	27,641	4,178
Supplies	6,763	6,063	6,885	821
Utility Cost of Sales	15,498	16,283	25,146	8,862
Departmental Credits[8]	(7,949)	(9,619)	(12,008)	(2,389)
Total	**$196,692**	**$268,144**	**$297,101**	**+$28,957 or +10.8%**

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

Personnel Expenses

Personnel expenses are approximately 45% of the Port's operating expenses (before depreciation) and are budgeted to be $134.4 million, an increase of $4.8 million or 3.7% in comparison to FY 2023 budget. Personnel cost increases reflect the addition of 11 FTEs leading to higher salaries and higher active health care costs, as summarized in Table 6. FY 2024 budgeted salaries are $77.2 million, or $3.7 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 increase $4.5 million to $28.2 million due to a lower budgeted $3.0 million pension credit (GASB 68) in FY 2024 (FY 2023 Budget assumed $7.0 million pension credit) and higher salaries from anticipated increases in staffing levels partially offset by a decrease in pension rates from approximately 41.1% to 39.8%. Medical costs for retirees are budgeted at $5.7 million and projected to decrease $3.8 million, reflecting updated annual required contributions based on the most recent actuarial report. Medical costs for active employees are budgeted at $11.1 million and projected to decrease by $0.2 million reflecting actual medical premiums on January 1, 2023, an assumed increase in medical premiums of 5.0% on January 1, 2024, and updated/assumed employee-elected coverages. The personnel budget also reflects a vacancy factor of 53 FTEs to reflect normal attrition. Other changes in personnel costs are based on recent experience, recent actuarial reports, or known or assumed rate increases.

TABLE 6
SUMMARY OF PERSONNEL EXPENSES
($000s)

Personnel Expenses	FY 2022 Actual	FY 2023 Budget	FY 2024 Budget	Change in Comparison to FY 2023 Budget
Salaries and Wages	$61,781	$73,455	$77,181	$3,726
Pension	6,402	23,608	28,157	4,549
Health Care – Retiree	4	9,500	5,696	(3,804)
Health Care – Active	9,399	11,284	11,114	(171)
Overtime	4,698	4,395	4,353	(42)
Workers Compensation	2,554	2,250	2,500	250
Vacation/Sick Leave Accruals	2,486	2,127	2,255	128
Other[9]	2,946	2,969	3,137	169
Total	$90,270	$129,589	$134,393	+$4,805 or +3.7%

9 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

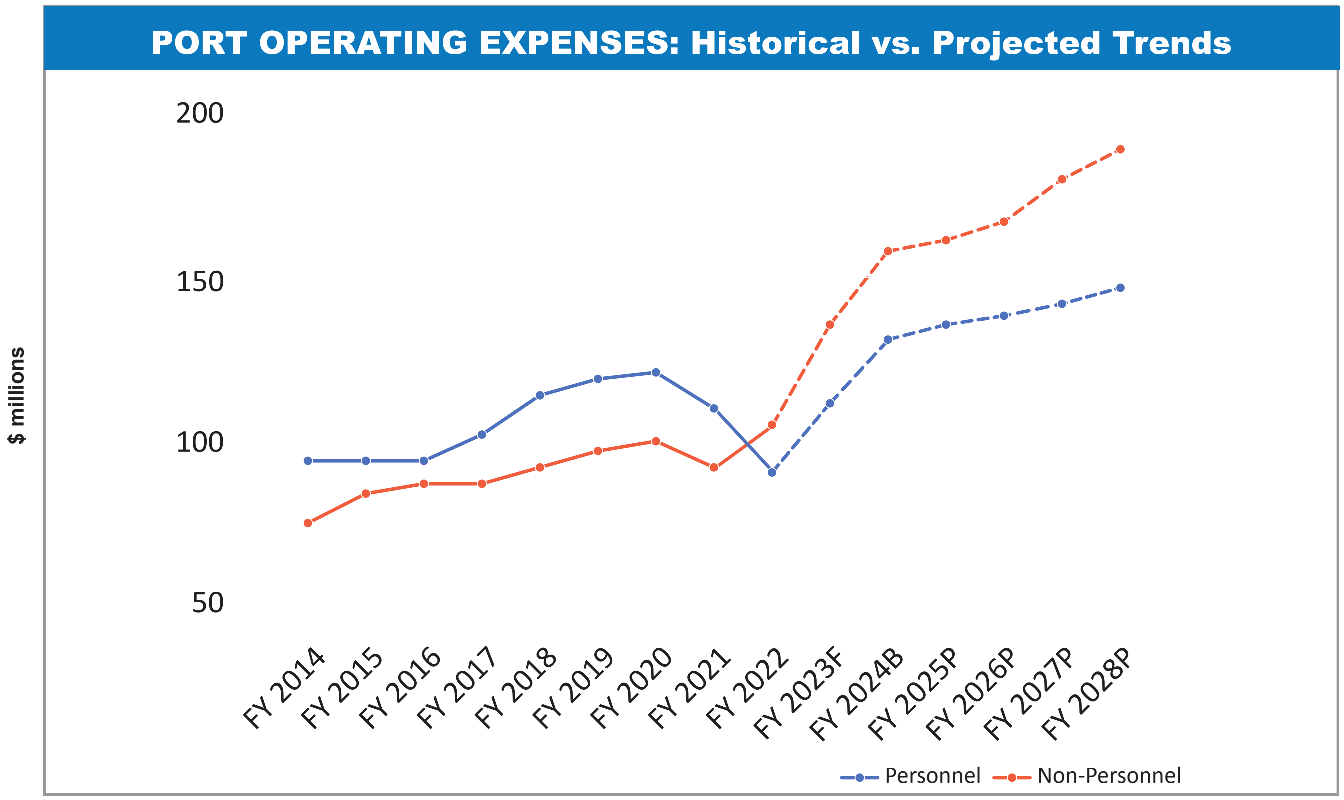
Non-personnel costs are budgeted in FY 2024 to increase by $24.2 million, or 14.8% higher than the FY 2023 budget. As shown in Table 7, eight expenses drive the increase in FY 2024 non-personnel expenses.

TABLE 7
SIGNIFICANT NON-PERSONNEL EXPENSES INCREASE
($000s)

Item	Change in Comparison to FY 2023 Budget
Utilities Cost of Commodity - Electricity	$8,612
Aviation Security	2,999
Truck Parking - Maritime	2,578
Port Use - Electricity	2,190
Maintenance and Repairs	2,175
Consulting	1,975
Contractual Services with Tenants	1,931
Insurance Premiums	826
All Other (Net Increase)	866
Total Non-Personnel Expense Increase	$24,152

FY 2025-2028 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 $297.1 million in FY 2024 to $347.0 million in FY 2028, for a forecasted compound annual growth rate of 4.0%. The forecast assumes FTEs increase by 1 to 551 in FY 2025 and flat thereafter, salary adjustments based on anticipated labor MOUs, medical premiums increasing 5.0%, pension costs decreasing to 32.5% of wages in FY 2025 and to 28.7% in FY 2026 and 27.2% in FY 2027, and to 25.3% in FY 2028, no GASB 68 pension credit assumed beginning in FY 2025, and no additional changes in unfunded retiree medical liability. This results in personnel costs increasing at a compound annual rate of 2.9% from FY 2024 through FY 2028. Non-personnel costs are assumed to increase at a compound annual rate of 4.8% between FY 2024 and FY 2028. Parking and ground transportation expenses at the airport increase commensurately with the recovery of passenger traffic in FY 2024 and beyond. Major maintenance anticipated at $7.0 million in FY 2024 then increases to $9.0 million per year in the subsequent years while consulting increases in FY 2025 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 2024-2028.



COMPOUND ANNUAL GROWTH RATE

	FY 2014-19*	FY 2019*-28 Projected:
Personnel	4.8%	2.6%
Non-Personnel	5.3%	8.2%
Port-wide	5.0%	5.4%

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

City Payments

The FY 2024 budget also includes the following payments to the City. These payments are included as either operating expenses or non-operating expenses in the budget. Table 8 shows the FY 2024 payment to the City.

TABLE 8
CITY PAYMENTS
($000s)

Item	2024 Budget
Aircraft Rescue and Fire Fighting Services	$6,559
General Services	1,583
Lake Merritt Maintenance	1,408
Maritime & Jack London Square Police Services	846
Landscape Lighting Assessment District	700
Community Facilities District (CFD) Payment to City	425
Personnel, City Clerk and KTOP Services	409
Treasury Services	401
Jack London Improvement District	185
Edgewater Median Maintenance[10]	60
Fireboat/OPD Patrol Boat Maintenance	44
Computer Aided Dispatch (CAD) Reimbursement to City	13
Total	**$12,633**
Parking and Utility Taxes	11,423
Total including Taxes	**$24,056**

Capital Budget

The capital budget totaling $163.7 million for FY 2024 includes the capital projects shown in Table 9. Amounts shown in Table 9 are expected expenditures in FY 2024 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 2024 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. Staff have applied a resource allocation planning process in order to realistically estimate the amount of work that can be accomplished in FY 2024 considering targeted staffing resources.

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

TABLE 9
FY 2024 CAPITAL BUDGET
($ millions)

FY 2024 Capital Budget -- Projects Summary	FY 2024 Capital Budget	% of Capital Budget
Aviation Terminal Projects	$26.0	16%
Airfield Projects (primarily Taxiways)	25.2	15%
Maritime (Seaport) Utility Projects	24.2	15%
Utilities Electric Projects	24.1	15%
Aviation Utility Projects	15.1	9%
Marine (Seaport) Terminals Projects	14.4	9%
Aviation Ground Access & Parking Projects	7.1	4%
CRE: Building & Tenant Improvements	6.3	4%
Aviation Capital Equipment	6.1	4%
Aviation Security Projects	3.6	2%
Middle Harbor Shoreline Park (MHSP) Improvements	2.1	1%
Maritime Crane Upgrades	2.0	1%
Airfield Perimeter Dike Improvements	1.9	1%
Aviation Facilities Maintenance Projects	1.9	1%
Information Technology Equipment & Systems	1.4	1%
Maritime (Seaport) Capital Equipment	1.2	1%
Portwide Miscellaneous Facilities Projects	0.9	1%
Maritime (Seaport) Roadways Projects	0.2	0%
Total	**$163.7**	**100%**

Table 10 shows a summary of the Port's FY 2024 Capital Budget by business line and anticipated funding sources.

TABLE 10
FY 2024 ANTICIPATED CAPITAL EXPENSES
Uses of Funds by Business Line ($ millions)

Divisions	FY 2024
Aviation	$87.4
Maritime	44.2
Utilities	24.1
CRE	6.6
Support	1.4
Total	**$163.7**

FY 2024 ANTICIPATED CAPITAL EXPENSES – Sources of Funds ($ millions)

Funding Source	FY 2024
Aviation	
Airport Improvement Program (AIP) Grants[11]	$19.2
Airport Terminal Program (ATP) Grants[11]	5.2
Airport Infrastructure (AIG) Grants[11]	1.5
Zero-Emission Vehicles (ZEV) Grant	1.3
PFC Pay-Go[12]	9.0
Cash	51.2
Total Aviation	**$87.4**
Maritime	
State Sanitary Sewer Grant	$8.7
CA State Transportation Auth (CalSTA) Grant[11]	8.6
LCFS Funds	0.4
Cash	26.5
Total Maritime	**$44.2**
Utilities	
Cash	$24.1
CRE	
Cash	$6.6
Support	
Cash	$1.4
Total	**$163.7**

[11] The Port has not yet obtained grant funding for all capital projects.

[12] Subject to FAA approval of new PFC application, otherwise funded with cash.

Board-Established Reserves

Pursuant to Board policy, the following reserves shown in Table 11 will continue to be maintained for FY 2024:

TABLE 11
BOARD-ESTABLISHED RESERVES – ($000s)

	FY 2024
Operating Reserve[13]	$38,138
Capital Reserve	15,000
Port Bond Reserve	30,000
Total Reserves	$83,138

Debt Service and Debt Service Coverage Ratios

The Port's bond debt service payments and projected debt service coverage ratio for FY 2024 are shown in Table 12

TABLE 12
DEBT SERVICE AND DEBT SERVICE COVERAGE RATIO ($000s)

	FY 2024
Net Revenues[14]	$159,640
Bond Debt Service (Senior & Intermediate)	$73,080
Less: (bonds paid with CARES/ARP allocations)	(2,565)
Total	**$70,515**
Bond Intermediate Lien Debt Service Coverage Ratio[15]	**2.26x**

In FY 2024, 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 remainder (or $2.6 million) will be paid from the Port's allocation of CARES and ARP funds. In FY 2024, 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 2024, the Intermediate Lien debt service coverage ratio is projected to be 2.26x based on the methodology specified in the Port's Intermediate Lien Bond Indenture.

[13] Established at 12.5% of Operating Budget (excluding depreciation).

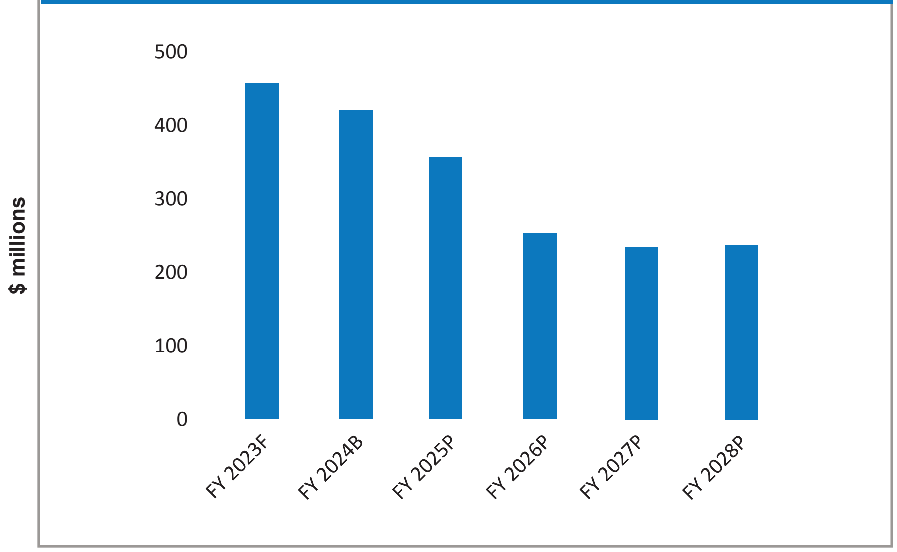
[14] Pursuant to the Port's Senior and Intermediate Lien Trust Indenture, "Net Revenues" represents Operating Revenues, less Operation & Maintenance Expense, plus interest income. However, Operation & Maintenance Expense payable from non-operating revenues are excluded from the calculation.

[15] 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.

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, 2023 through June 30, 2028. The projected General Fund balance reflects the FY 2024 operating and capital budgets, as well as the Port's updated 5-year financial forecast, including the 5-Year CIP.

PROJECTED JUNE 30 GENERAL FUND ENDING BALANCE[16]



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

SUMMARY

The annual budget is a critical management tool essential for planning and prioritizing the use of our financial resources, and through which we build financially strong and sustainable business lines. I thank Port staff for their time and commitment to developing this budget as well as their dedication to serve as reliable stewards of public resources. I would also like to thank the Board for their leadership, guidance, and support of the FY 2024 Budget.

Sincerely,

Julie Lam
Chief Financial Officer