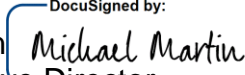




MEMORANDUM

April 24, 2020

TO: MEMBERS, PORT COMMISSION
Hon. Kimberly Brandon, President
Hon. Willie Adams, Vice President
Hon. Gail Gilman
Hon. Victor Makras
Hon. Doreen Woo Ho

FROM: Michael Martin 
Acting Executive Director

SUBJECT: Port Revenue Projections for FY 2019-20 and Preliminary Revenue Estimates for FY 2020-21 and FY 2021-22

CURRENT FISCAL YEAR

Due to the suspension of certain business activities arising during the COVID-19 public health emergency, the Port's waterfront tenants are facing an unprecedented drop in economic activity which in turn will impact Port revenues. Port staff projects that the department will generate \$101.0 million in operating revenue in Fiscal Year (FY) 2019-20, which is 17% below the budget of \$121.8 million. The Port will address this projected revenue shortfall of \$20.8 million through (a) \$9.4 million in expenditure savings from a combination of salary savings due to vacant positions, savings in interdepartmental work orders, including shoreside power, and savings in line items such as contractual services, equipment procurement and materials and supplies and (b) reducing the designation to future capital by \$11.4 million and converting it into a fund balance contribution.

Table 1: Projected FY19-20 Revenues

Revenue (\$millions)	Budget FY19-20	Projected FY19-20	Shortfall
Maritime	\$21.4	\$19.8	-7%
Real Estate	\$98.0	\$78.8	-20%
Other	\$2.4	\$2.4	0%
TOTAL	\$121.8	\$101.0	-17%

FISCAL YEARS 2020-2021 AND 2021-2022

The FY 2020-21 and FY 2021-22 budget approved by the Port Commission in February reflected revenue assumptions that no longer apply. In recognition of the likely adverse economic impacts of COVID-19 and the shelter-in-place order, the City has extended the FY 2020-21 and FY 2021-22 budget process to allow departments to prepare revised revenue and expenditure assumptions. Port staff has begun modeling new revenue projections for the next two fiscal years using the approach outlined by the Controller, Budget and Legislative Analyst, and Mayor’s Budget Office in the March Joint Report. The Joint Report assumes two different economic recession scenarios to calculate a range of possible revenues:

1. an “Extended Impact” scenario with a six-month recession followed by a long recovery through calendar year 2021. This scenario represents the low end of the revenue range.
2. a “Limited Impact” scenario with a less severe six-month recession followed by a rapid recovery by the end of calendar year 2020. This scenario represents the high end of the revenue range.

Using selected assumptions from the Joint Report and internal Port data, Port staff has projected the following revenue range for the next two fiscal years. Please note that these projections are preliminary and will evolve based upon the course of the COVID-19 outbreak, and as Port staff receives additional information regarding revenue collection. Port staff will also adjust its assumptions based on feedback from the Mayor and the Controller’s Office.

Table 2: Preliminary Estimate of Total Port Revenues

Revenue (\$millions)	Port Approved		Low Revenue (Extended Impact)				High Revenue (Limited Impact)			
	FY20-21	FY21-22	FY20-21	Δ	FY21-22	Δ	FY20-21	Δ	FY21-22	Δ
Maritime	\$26.9	\$27.4	\$12.9	-52%	\$19.6	-28%	\$16.3	-39%	\$22.7	-17%
Real Estate	\$86.4	\$89.3	\$46.8	-46%	\$68.5	-23%	\$58.5	-32%	\$77.0	-14%
Other	\$4.3	\$4.1	\$2.5	-41%	\$3.3	-20%	\$3.1	-28%	\$3.5	-15%
TOTAL	\$117.7	\$120.8	\$62.2	-47%	\$91.4	-24%	\$77.9	-34%	\$103.2	-15%

As shown in Table 3 below, Port staff currently forecasts generating between \$78.2 million and \$105.7 million less revenue over the three fiscal years between FY 2019-20 and FY 2021-22 than what the Port would have generated absent the COVID-19 related emergency. To address this reduced revenue outlook, the Port will have to decrease its capital and operating budget for the next two fiscal years from the amounts previously approved by the Port Commission.

Table 3: Shortfalls to Port Approved Budget

Shortfall (\$millions)	FY19-20	FY20-21	FY21-22	Total
Low Revenue	(\$20.8)	(\$55.4)	(\$29.4)	(\$105.7)
High Revenue	(\$20.8)	(\$39.8)	(\$17.6)	(\$78.2)

NEXT STEPS

As referenced above, in order to reflect the adverse economic impacts of COVID-19 on the upcoming budget, the City has extended the citywide budget process. The revised schedule requires departments to submit an updated budget to the Mayor's Office in early June (date still to be determined). The Mayor will submit the FY 2020-21 and FY 2021-22 budget to the Board of Supervisors for review and approval on August 1st. Normally the Port's budget would be a "closed" two-year budget with only very limited changes in FY 2021-22. Because of the economic uncertainty created by the COVID-19 related emergency, the Mayor will require all departments to submit a full budget request for FY 2021-22 with updated revenue and expenditure assumptions in February 2021.

Under the guidance of the Port Commission, the Port has long used a conservative approach to financial management. Among other policies, the Port maintains a 15% annual operating reserve and has carefully marshalled its overall fund balance. As a result, the Port has a current fund balance of nearly \$67 million that will provide a critical tool for stabilizing the Port during this time of crisis. However, fund balance alone cannot balance the budget. The Port must pair its use of fund balance with cuts to operating and capital expenditures in order to sustain the Port's long-term economic strength.

During the coming four to six weeks Port staff will finalize revenue projections and identify potential reductions to operating and capital expenses for the next two fiscal years. Staff expects to return to the Port Commission to present the revised FY 2020-21 and FY 2021-22 budget at the end of May or the beginning of June.

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Finance and Administration