

**Board of Pilot Commissioners for the Bays
of San Francisco, San Pablo, and Suisun**

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May 29, 2020

Ms. Erika Li, Program Budget Manager
Department of Finance
915 L Street, 8th Floor
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Re: Board Operations Surcharge Rate Increase

On May 28, 2020, the Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun (Board) voted unanimously to increase the Board Operations Surcharge rate (a percent of the gross pilotage fees) from the current 2.75% to 4.5%, effective July 1, 2020. This action was taken at the recommendation of the Board's Finance Committee based on financial and other information provided by Board staff and the California Highway Patrol's fiscal staff.

Harbors and Navigation Code §1159.2 requires approval from the Department of Finance if the Board sets the Board Operations Surcharge rate at an amount less than 7.5% of all pilotage fees, and also requires that this surcharge rate cannot be significantly more than necessary to support the administrative costs of the Board and Board-related costs of the California Transportation Agency.

For your information, historical Board Operations Surcharge rates since 2007 are shown in the chart below:

Surcharge Effective Date	Rate
7/1/2007	2.4%
1/1/2009	6.6%
1/1/2011	3%
7/1/2012	1.5%
1/1/2013	1%
1/1/2016	2%
7/1/2016	3%
7/1/2018	2.75%

In 2009, the Board Operations Surcharge rate was set at a high rate to accumulate fund balance reserves to fund anticipated litigation costs resulting from the COSCO BUSAN incident that occurred in 2007. Litigation costs were less than anticipated, and left the Board with a large Board Operations fund balance. The Board subsequently periodically reduced the Board Operations Surcharge rate beginning 1/1/2011 through 12/31/2015, to utilize excess Board Operations fund balance reserves.

Since January 1, 2016, and through June 30, 2020, the Board has set the Board Operations Surcharge rate between 2% and 3%, with a current rate of 2.75% for the past two fiscal years, to ensure sufficient funding to meet expenditures, to maintain a fund balance reserve equal to approximately one year of budgeted

expenditures, and all the while being mindful of meeting its goal to ensure smooth rate changes to the shipping industry.

Since the beginning of 2020, the shipping activity has been severely impacted by foreign trade issues and the COVID-19 pandemic. In the San Francisco Bay area from January through April 2020, shipping volumes are down 10-15%, and it is unknown when the volume will return to normal. The Board's Finance Committee thoroughly discussed the state of shipping and the economy at its meeting in mid-May, and the Board accepted the Finance Committee's recommendation at its meeting on May 28, 2020, to increase the Board Operations Surcharge rate from 2.75% to 4.5% of all pilotage fees, effective July 1, 2020. This rate change is predicated on the assumption that shipping volumes will be reduced by approximately 15% in fiscal year 2020-21. The Board was mindful to not increase the surcharge rate more than necessary, but noted that the maximum rate that can be charged is 7.5%, and there a concern that if shipping volumes are worse than projected, a 4.5% surcharge rate may not be sufficient. The Board's Finance Committee intends to closely monitor ongoing shipping activity to determine if further rate changes are warranted. Attached is analysis the Board considered when making its rate change decision.

In addition to pilotage fees and the Board Operations Surcharges paid by the shipping industry for the services of a Board-licensee, the shipping industry also pays four additional separate Board-designated surcharges.¹ Collectively, the surcharges fund the Board's operations and programs, various statutorily-authorized equipment/technology used by Board-licensees, and the San Francisco Bar Pilot Pension Plan. In setting various surcharge rates, the Board continues to be mindful of the impact that surcharge rates and rate fluctuations have on the shipping industry. The Board has expressed a desire to smooth, when possible, the collective fluctuations in surcharge rates for long term budget and planning purposes of both the Board and the shipping industry, and to ensure that the Board has sufficient time to react to changes in shipping activity trends.

Your timely and favorable review and approval of the Board's Board Operations rate change decision is very much appreciated. Please feel free to contact me or Assistant Director Roma Cristia-Plant if you have any questions regarding this matter.

Respectfully,



Allen Garfinkle
Executive Director

Cc: Elissa Konove, California Transportation Agency
Kathy McCloud, DOF Budget Analyst
Roma Cristia-Plant, BOPC Assistant Director
Rebecca Metz, California Highway Patrol

Enc. Projections

¹ The five surcharges currently being assessed are the Board Operations Surcharge, the Pilot Continuing Education Surcharge, the Pilot Trainee Surcharge, the Navigation Technology Surcharge, and the Pilot Pension Plan Surcharge. At present, the Pilot Boat Surcharge is not being assessed. However, the President of the San Francisco Bar Pilots has indicated to the Board that Board-licensees are inquiring into the acquisition of a new pilot boat. As such, the Pilot Boat Surcharge may be reactivated by the Board in the future.

BOARD OF PILOT COMMISSIONERS Board Operations Surcharge Analysis				
	2017-2018	2018-2019	2019-2020	2020-21
Surcharge Rate	3%	2.75%	2.75% ³	4.5% ⁴
Beginning Fund Balance	\$ 1,516,883	\$ 1,896,258	\$ 1,698,509	\$ 1,400,000
Revenues ¹	\$ 1,354,824	\$ 1,301,840	\$ 1,255,315	\$ 1,607,000
Expenditures	\$ (1,129,776)	\$ (1,306,457)	\$ (1,365,516)	\$ (1,600,000)
Other Exp/Adjustments-Net ²	\$ 154,327	\$ (193,132)	\$ (99,000)	\$ -
Ending Fund Balance	\$ 1,896,258	\$ 1,698,509	\$ 1,489,307	\$ 1,406,999

¹ Includes SMIF revenue through FY 2019-20

² Includes Prior Year Expenditure Adjustments and Direct Fund Transfers Out

³ Actual through FM9, projected to fiscal year end equal to the revenue in the same month as prior fiscal year

⁴ Assumes 15% revenue decline

PROJECTIONS AND SENSITIVITY ANALYSIS				
Governor's Proposed 2020-21 Proposed Board Ops Budget			\$1,641,000	
FY 2019-20 Pilotage Revenue (Rounded Down)	\$ 42,000,000	\$ 42,000,000	\$ 42,000,000	\$ 42,000,000
Potential Revenue Reduction	0%	-10%	-15%	-20%
Est. FY 2020-21 Pilotage Revenue	\$ 42,000,000	\$ 37,800,000	\$ 35,700,000	\$ 33,600,000
2020-21 Beginning Fund Balance	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Board Operations Surcharge Rate				
2.75%	\$ 1,155,000	\$ 1,040,000	\$ 982,000	\$ 924,000
3.00%	\$ 1,260,000	\$ 1,134,000	\$ 1,071,000	\$ 1,008,000
3.50%	\$ 1,470,000	\$ 1,323,000	\$ 1,250,000	\$ 1,176,000
4.00%	\$ 1,680,000	\$ 1,512,000	\$ 1,428,000	\$ 1,344,000
4.50%	\$ 1,890,000	\$ 1,701,000	\$ 1,607,000	\$ 1,512,000
5.00%	\$ 2,100,000	\$ 1,890,000	\$ 1,785,000	\$ 1,680,000
Projected FY 2020-21 Expenditures	\$ 1,600,000	\$ 1,600,000	\$ 1,600,000	\$ 1,600,000
2020-21 Ending Fund Balance				
2.75%	\$ 955,000	\$ 840,000	\$ 782,000	\$ 724,000
3.00%	\$ 1,060,000	\$ 934,000	\$ 871,000	\$ 808,000
3.50%	\$ 1,270,000	\$ 1,123,000	\$ 1,050,000	\$ 1,144,000
4.00%	\$ 1,480,000	\$ 1,312,000	\$ 1,228,000	\$ 1,144,000
4.50%	\$ 1,690,000	\$ 1,501,000	\$ 1,407,000	\$ 1,312,000
5.00%	\$ 1,900,000	\$ 1,690,000	\$ 1,585,000	\$ 1,480,000