



THE PORT
OF LOS ANGELES
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: MAY 1, 2019

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF ANNUAL BUDGET COVERING FISCAL YEAR 2020 FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

SUMMARY:

Staff requests approval of the annual budget for Fiscal Year 2020 for operations of Cabrillo Way Marina by Westrec Marina Management, Inc. under Agreement No. 13-3125. Westrec's proposed FY 2020 budget continues on an upward trend in revenues with FY 2020 proposed total revenues of \$6,496,578 representing a projected 11.8 percent increase relative to FY 2019 approved total revenues of \$5,811,951. The expected income increase results from wet slip occupancy increasing to 577 from 500 anticipated within the FY 2019 approved budget. FY 2020 proposed total expenses of \$3,613,270 represent a 17.4 percent increase from FY 2019 approved total expenses of \$3,078,868 due to higher lighting, staffing and janitorial expenses that resulted from the transfer of responsibilities from the Harbor Department to Westrec in Fiscal Year 2018. Although FY 2020 proposed net income of \$2,883,308 is expected to represent an increase of \$150,225 from FY 2019 approved net income of \$2,733,083, FY 2020 proposed net income as a percentage of revenues (net income percentage) is expected to decline from the FY 2019 approved figure of 47.0 percent to the FY 2020 proposed net income percentage of 44.4 percent due to expenses increasing at a higher rate than revenues. Expense increases in lighting/electrical, landscaping, general maintenance, irrigation and dock repairs were all increased under the First Amendment to the Agreement (March 2017) when all Construction and Maintenance Division responsibilities were shifted to Westrec. The projected expenses to revenue ratio for 2020 remains slightly below industry standards, which is typically 56 percent of revenues received with a net income ratio of 44 percent, excluding rent payments to municipal landlords.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners (Board):

1. Find that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2(f) of the Los Angeles City CEQA Guidelines as determined by the Director of Environmental Management;
2. Approve the Westrec Marina Management, Inc. annual budget for Fiscal Year 2020 under Agreement No. 13-3125; and
3. Adopt Resolution No. _____.

SUBJECT: APPROVAL OF FY 2020 ANNUAL BUDGET FOR WESTREC MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

DISCUSSION:

Proposed Action – Staff requests Board approval of CWM's annual budget for FY 2020 (Transmittal No.1). An analysis of these future operating expenses and revenues was conducted, as well as a thorough review of past operating expenses and revenues. It was determined that the proposed annual budget is appropriate for CWM's continued operations.

Background – The Agreement was approved by the Board at its meeting of June 6, 2013. Westrec manages CWM as a fee operator while passing through all expenses and revenue to the Harbor Department. CWM consists of approximately 64.14 acres of land and water in San Pedro. The premises currently consist of 692 wet slips, 325 dry boat storage stalls, three cranes for boat hoisting with the capacity to install a fourth crane if needed. The premises also contains pump out stations, parking lots, promenades, boater facilities and public restrooms. All improvements are owned by the Harbor Department and maintained by Westrec.

As part of a Harbor Department development project, CWM was constructed in an area that included an existing marina with existing wet slip tenants. Pursuant to the terms and conditions of the Agreement, Westrec was required to annually phase in slip rate increases for the existing wet slip tenants to gradually bring those tenant's slip rates up to market over a three-year period. Wet slip tenants entering CWM after August 1, 2010 were charged at that market rate for the time period and included annual increases. Wet slip and dry boat storage rates are based on the overall length of the vessel or slip whichever is greater. The phasing of wet slip rates for existing tenants was completed in June 2017. All slip tenants are now paying the same slip rates.

Operating Expense and Revenue Summary – Annual operating expenses include, but are not limited to: a four percent monthly management fee of the gross revenue from wet slip and dry storage rents collected; staffing expenses, including salary, benefits and contractual ordinances; and sub-contracting, insurance, maintenance, and security.

Annual revenues include, but are limited to: slip rent; dry boat storage rent; guest slip fees; laundry machine coin collections; storage locker fees; and vending machine income and interest income.

Under the Agreement, Westrec submits monthly gross receipts reports along with financial and bank statements. These reports include the monthly revenue received and monthly operating expenses.

Budget Review Process – Staff recently initiated and completed a review and analysis of the past, current and future year's budget and found the proposed annual budget for FY 2020 to be satisfactory. Westrec provided supporting documentation to support and justify the proposed budget items. This review and analysis determined that the proposed expenses and revenues are in line CWM's operational capacity and marina needs.

The following table provides a summary of key financial metrics provided within Westrec's FY 2020 proposed budget submission as well as a comparison to the FY 2018 actuals

SUBJECT: APPROVAL OF FY 2020 ANNUAL BUDGET FOR WESTREC MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

and FY 2019 approved budget figures for expense categories that varied significantly from the previous year.

TABLE 1: COMPARISON OF FY 2020 PROPOSED BUDGET TO FY 2018 ACTUALS AND THE FY 2019 APPROVED BUDGET

In \$	FY 2018 Actuals	FY 2019 Approved	FY 2020 Proposed	\$ Variances - FY 2020 vs.		% Variances - FY 2020 vs.	
				FY 2018 Actuals	FY 2019 Approved	FY 2018 Actuals	FY 2019 Approved
Wet Slip Rentals	3,900,414	4,338,249	4,937,478	1,037,064	599,229	26.6%	13.8%
Other Revenues	1,526,760	1,473,702	1,559,100	32,340	85,398	2.1%	5.8%
(A) Total Revenues	5,427,174	5,811,951	6,496,578	1,069,404	684,627	19.7%	11.8%
Lighting Maintenance	105,997	55,800	284,000	178,003	228,200	167.9%	409.0%
Payroll	674,150	580,545	765,637	91,487	185,092	13.6%	31.9%
Janitorial	7,517	31,219	125,000	117,483	93,781	1562.9%	300.4%
Management Fee	216,750	232,478	259,863	43,113	27,385	19.9%	11.8%
Other Expenses	1,959,857	2,178,826	2,178,770	218,913	(56)	11.2%	0.0%
(B) Total Expenses	2,964,271	3,078,868	3,613,270	648,999	534,402	21.9%	17.4%
(C) Net Income (A - B)	2,462,903	2,733,083	2,883,308	420,405	150,225	17.1%	5.5%
<i>Net Income % (C / A)</i>	<i>45.4%</i>	<i>47.0%</i>	<i>44.4%</i>				

Total revenues within the FY 2020 proposed budget are expected to be \$6,496,578 which represents a \$1,069,404 (19.7 percent) increase relative to FY 2018 actuals and an increase of \$684,627 (11.8 percent) relative to the FY 2019 approved budget. This increase in total revenues is primarily attributable to an increase in wet slip rentals with 577 slip rentals expected to be rented in FY 2020 relative to the 468 slip rentals achieved on average in FY 2018 and the 500 slip rentals expected as part of the FY 2019 approved budget. Assuming 692 total available slip rentals, the 577 rentals anticipated within the FY 2020 budget would represent an occupancy of 83.4 percent relative to the 67.6 percent occupancy achieved on average in FY 2018 and the 72.3 percent occupancy anticipated as part of the FY 2019 approved budget.

Total expenses within the FY 2020 proposed budget are expected to be \$3,613,270, which represents a \$648,999 (21.9 percent) increase relative to FY 2018 actuals and an increase of \$534,402 (17.4 percent) relative to the FY 2019 approved budget. This increase in total expenses is primarily attributable to an increase in lighting maintenance, payroll, janitorial, and management fee expenses. FY 2020 lighting maintenance is expected to increase due to the impact of the First Amendment, which shifted responsibility from the Harbor Department to Westrec, as noted previously. FY 2020 payroll expenses are expected to increase due to implementation of the living wage ordinance within the Agreement, staff promotions as well as the hiring of a dock master, assistant dock master and office assistant in response to the increase in slip rentals, the associated increase in marina services, as well as the increase in maintenance activities. FY 2020 janitorial expenses are expected to increase due to the addition of morning services and bi-monthly sanitation to the evening janitorial services currently provided. Although FY 2020 management fees will continue to be derived from a 4 percent fee on gross revenues, FY 2020 management fees are expected to increase due to the aforementioned expected increase in gross revenues.

Net income within the FY 2020 proposed budget is expected to be \$2,883,308, which represents a \$420,405 (17.1 percent) increase relative to FY 2018 actuals and an increase of \$150,225 (5.5 percent) relative to the FY 2019 approved budget. This

SUBJECT: APPROVAL OF FY 2020 ANNUAL BUDGET FOR WESTREC MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

increase in net income is primarily attributable to the expected increase in total revenues exceeding the increase in total expenses. However, given that total expenses are expected to grow at a faster rate than total revenues, the FY 2020 proposed net income ratio of 44.4 percent is anticipated to represent a decline relative to the 45.4 percent achieved in FY 2018 and a decline relative to the 47.0 percent net income ratio estimated within the FY 2019 approved budget.

Financial Performance Metrics/Operating Expense Percentage Ratio – The marina industry standard for operating expense percentage ratios, which includes both public and privately-owned marinas, is typically 56 percent of revenues received with a net income ratio of 44 percent, excluding rent payments to municipal landlords. Although this standard is used as a general performance metric, actual performance of individual marinas will vary based on many factors including local market conditions, proximity to open water, land to water ratio, configuration, slip size mix, age, amenities, and physical condition. In the CWM context, the marina is negatively affected by a general oversupply of slips in the market area, high land to water ratio and slip mix favoring larger slips. CWM is positively affected by its close proximity to open water, age, and physical condition.

The 55.6 percent expense ratio provided within the FY 2020 proposed budget is aligned with the 56.0 percent expense ratio industry standard observed for public and privately owned marinas. These ratios are also expected to improve as continued wet slip absorption occurs in the coming years.

Current Operator Compensation – On a monthly basis, Westrec deducts its 4 percent management fee as an operating expense from the revenues generated from slip, dry boat storage rents, and miscellaneous revenues collected.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the Westrec Marina Management, Inc. annual budget for FY 2020 under Agreement No. 13-3125, which is an administratively exempt activity. Therefore, the Director of Environmental Management has determined that the proposed action is administratively exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article II Class 2(f) of the Los Angeles City CEQA Guidelines.

FINANCIAL IMPACT:

Approval of Westrec's FY 2020 proposed budget is an administrative activity as per the terms of the Agreement. Westrec submits to the Harbor Department the revenues it collects as the operator of CWM, net of expenses. The Harbor Department records gross revenues reported by Westrec as land rentals within Account 42010, while operating expenses incurred by Westrec are recorded as tenant credits within Account 49070.

Based upon FY 2018 actuals, the Harbor Department realized net receipts of \$2,462,903. Based upon the FY 2019 approved budget and the FY 2020 proposed budget, the Harbor Department anticipates respective net receipts of \$2,733,083 and \$2,883,308. Historical and projected financial information has been summarized below:

**SUBJECT: APPROVAL OF FY 2020 ANNUAL BUDGET FOR WESTREC MARINA
MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125**

TABLE 2: HISTORICAL AND PROJECTED FINANCIAL SUMMARY

In \$	FY 2016 Actuals	FY 2017 Actuals	FY 2018 Actuals	FY 2019 Approved	FY 2020 Proposed
(A) Total Revenues	3,825,625	4,667,280	5,427,174	5,811,951	6,496,578
(B) Total Expenses	2,370,287	2,963,485	2,964,271	3,078,868	3,613,270
(C) Net Income (A - B)	1,455,338	1,703,795	2,462,903	2,733,083	2,883,308
Income Growth %		17.1%	44.6%	11.0%	5.5%
Expense % (B / A)	62.0%	63.5%	54.6%	53.0%	55.6%
Net Income % (C / A)	38.0%	36.5%	45.4%	47.0%	44.4%

CITY ATTORNEY:


The Office of the City Attorney has reviewed this Board Report and has no legal issues at this time.

TRANSMITTAL:

1. CWM FY 2020 Budget


MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate

FIS Approval: 
CA Approval: 


MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:


EUGENE D. SEROKA
Executive Director

ES:MD:MG:ER:HP:KK:RL:raw
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