



Executive Director's  
Report to the  
Board of Harbor Commissioners

**DATE: MAY 3, 2017**

**FROM: WATERFRONT & COMMERCIAL REAL ESTATE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - APPROVAL OF ANNUAL BUDGET COVERING FISCAL YEAR 2017/2018 FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125**

**SUMMARY:**

Staff requests approval of the annual budget for Fiscal Year (FY) 2017/2018 under Agreement No. 13-3125 (Agreement) between Westrec Marina Management, Inc. (Westrec) and the City of Los Angeles Harbor Department (Harbor Department). Westrec's budget proposal for FY 2017/2018 continues to improve on past FY performance in both operating income and operating expense percentage ratio to total revenue. Westrec's proposed FY 2017/2018 budget continues an upward trend in operating income with a projected 11 percent increase from FY 2016/2017. The operating expense percentage ratio to total revenue is also expected to reach industry standard levels at 54 percent of total revenue, which continues a positive trend from previous years.

The Agreement provides for the operation, management, and maintenance of the Cabrillo Way Marina (CWM) and its structures/facilities located in San Pedro on behalf of the Harbor Department. The Agreement has a five-year term (July 1, 2013 through June 30, 2018), with two five-year option periods to extend the term. The Agreement requires the Operator (Westrec), with input from the Harbor Department, to prepare an annual budget for operation of the marina for approval by the Harbor Department. The first proposed annual budget for FY 2013/2014 was approved at the Agreement's inception and was provided as an initial estimate of the proposed revenues and expenses. The initial expense and revenue budgets were produced as part of a competitive Request for Proposal (RFP) process in which Westrec was the successful proposer.

**RECOMMENDATION:**

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

1. Find that the proposed action is 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 2017/2018 under Agreement No. 13-3125; and
3. Adopt Resolution No. \_\_\_\_\_.

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**DISCUSSION:**

Proposed Action – Staff requests Board approval of the annual budget for FY 2017/2018 (Transmittal 1). An analysis of future expenditures and revenues was conducted, and it was determined that the proposed annual budget is appropriate for CWM. CWM's first year's proposed budget for FY 2013/2014 was approved by the Board, along with the Agreement with Westrec. The FY 2013/2014 budget was based on the proposal Westrec submitted during the 2010 competitive RFP process in which Westrec was selected as the successful proposer. Annual budgets thereafter are to be approved by the Board. CWM's operating budget covering FYs 2014/2015, 2015/2016 and 2016/2017 was approved by the Board on February 16, 2017.

Background – The Agreement was approved by the Board at its meeting on June 6, 2013, and allows Westrec to operate, manage, and maintain the Harbor Department's CWM, effective July 1, 2013 through June 30, 2018, with two five-year option periods to extend the term. 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, currently with 692 recreational berthing slips, 325 dry boat storage stalls, two cranes for boat hoisting with a third crane to be installed in the next 90 days, 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 development project, CWM was constructed in an area that included an existing marina with existing slip tenants. Pursuant to the terms and conditions of the Agreement, Westrec is required to annually phase in slip rate increases for the former slip tenants displaced during construction of the CWM to gradually bring those tenant's slip rates up to market. Boat slip tenants entering CWM after August 1, 2010 were charged market rates, including annual increases. Slip and dry boat storage rates are based on the overall length of a vessel or slip, whichever is greater.

Operating Expense and Revenue Summary – Annual operating expenses include, but are not limited to, a four percent monthly management fee of the gross slip and dry storage rents collected, staffing expenses, including salary, benefits, and the required annual living wage ordinance increases, sub-contracting, insurance, maintenance, and security. Annual revenues include slip rent, dry boat storage rent, guest slip fees, laundry machine coin collections, storage locker fees, 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.

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Start-Up Budget - At the inception of the Agreement, Westrec was provided a start-up budget of \$364,000 to be allocated within the first two years of operation; \$244,000 in FY 2013/2014 and \$120,000 in FY 2014/2015. However, not all funds were expended within the first two-year period of operation due to delays in starting up the dry boat storage operations. Start-up funds were and are used for office equipment, dry boat storage start-up operations, storage sheds/containers, and a variety of materials, equipment, and supplies. Additionally, Westrec was required to complete construction projects that weren't completed at the time the marina was turned over to the Harbor Department. The remaining start-up budget funds are to be expended in following years. Westrec provided documentation supporting its start-up expenditures, which are outlined below.

<i>Start Up Expenditures</i>		
<b>Year</b>	<b>Amount</b>	
	<b>\$ 364,000</b>	<b>Summary of Expenses</b>
2013/2014	\$ 181,578	Office furniture/equipment, storage sheds/racks, dock carts, various parts and equipment
2014/2015	\$ 15,962	Dry boat storage electrical panels, storage containers, crane parts
2015/2016	\$ 91,280	40' containers, storage sheds, cement/masonry work
<b>Total</b>	<b>\$ 288,820</b>	
<b>Balance</b>	<b>\$ 75,180</b>	Remaining Balance to be expended in FY 2016/2017

Budget Review Process - Staff recently initiated and completed an extensive review and analysis of the past, current, and future year's budget and found the annual budget for 2017/2018 to be satisfactory. Westrec provided documentation to support the proposed budgeted items, including detailed information when budget variances were noted. This review determined that expenses and revenues are in line with CWM's operational capacity.

During staff's review of the proposed budget for 2017/2018, significant variations from the initial year's budget were noted in several budget line items which required additional justification and supporting documentation. Those line items include budget categories under the proposed operating expenses and proposed revenues. Regarding expense categories, Westrec provided adequate explanation for each line item in question, and it was determined that those budget allocations were justified. Additional justification for revenue budget projections is provided below.

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<b>PROPOSED OPERATING BUDGET</b>				
<b>2017/2018 JUSTIFICATION</b>				
Description	Year 3 and 4		Year 5 FY 2017/2018	Variance Justification
	2015/2016 (Actual)	2016/2017 (Estimated)	Proposed	
<b>Expenses</b>				
<b>Maintenance and Repairs:</b>				
Marina Staff	\$ 625,683	\$ 448,773	\$ 402,703	Decrease due to reduction in maintenance staff
Sub-Contracting Services	\$ 302,700	\$ 368,417	\$ 530,658	Due to increase in dry storage management fee with addition of 2.5 new full-time equivalent employees. Need arose with full storage yard.
Gardening/Landscaping	\$ 96,907	\$ 84,336	\$ 94,553	First Amendment to Operating Agreement shifted certain C&M responsibilities to Westrec.
Refuse Disposal	\$ 20,934	\$ 29,004	\$ 38,004	Reflects increases in annual fees for regular trash pickup as well as recycled trash pickup. Also includes additional containers for special events such as Fleet Week and Christmas A-Float.
Janitorial	\$ 44,926	\$ 43,294	\$ 30,310	Decrease in janitorial supply costs as they are now provided under a new janitorial contract
Equipment	\$ 16,516	\$ 100,000	\$ 130,000	Increase reflective of installation/testing/permitting of a new 3 <sup>rd</sup> crane, relocation of 2 <sup>nd</sup> crane, dry boat storage security system.
Lighting	\$ 1,510	\$ 135,000	\$ 148,012	First Amendment to Operating Agreement shifted C&M's lighting responsibilities to Westrec.
Docks and Related	\$ 140,186	\$ 140,050	\$ 156,800	First Amendment to Operating Agreement shifted specific responsibilities to Westrec.

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 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

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factors including local market conditions, proximity to open water, land to water ratio, configuration, slip size mix, age, 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.

For FY 2015/2016, CWM expenses were at 62 percent of revenues with a net income of 38 percent. Outside of the above unique marina characteristics, CWM's below industry standard ratio is due to the marina continuing through the initial stabilization period and associated occupancy of 57 percent, as well as approximately 150 slip tenants who initially transferred from the former marina paying lower rates than those slip tenants occupying slips after August 1, 2010. The projected 2016/2017 and 2017/2018 expense percentage of revenues are 55 percent and 54 percent, respectively. The projected net income for 2016/2017 is 45 percent and 46 percent for 2017/2018. It is anticipated that after CWM achieves occupancy ratios in line with neighboring marinas, and all the reduced slip tenant rates are adjusted, percentage ratios will stabilize in line with industry standards.

Gross Revenue Performance and Projections - The variation between the proposed revenue in Westrec's initial budget proposal and actual revenue over the initial three fiscal years is due to several factors that resulted in overestimation of expected gross revenue primarily from wet slips.

Following the economic recession of 2008, the pace of the projected recovery has not materialized as quickly as expected. The slower than expected recovery negatively affected gross revenue projections for wet slip occupancy within CWM as discretionary income spent on recreational boating did not rebound as anticipated. Market data regarding stronger demand favoring larger slips and a slower general economic recovery resulted in significant overestimations of gross revenues for wet slips in both the 2014/2015 and 2015/2016 proposed budgets. The 2016/2017 budget benefited from three full years of actual absorption history and actuals have tracked much closer to budget projections. This fiscal year 2017/2018 revenue projection has also taken into account the slower recovery and shift in market demand and is expected to be more accurate than past year's projections as a result.

The Agreement also mandated that Westrec, over a five-year period, bring boaters carried over from the previous marina up to market rental rates. The year-over-year rate increases varied from 10 to 17 percent annually depending on slip size. Westrec underestimated the amount of existing slip tenants that would vacate as a result of these annual increases in both 2014/2015 and 2015/2016. Westrec expected approximately 10 percent attrition to occur over the course of the first four years, however, the actual attrition rates for this group of slip tenants has been 60 percent with 90 of 150 slip tenants from the old marina leaving up to the present date. The variance between projections and actual results occurred due to an underestimation in boater sensitivity towards the automatic rate increases that was compounded with neighboring marinas having the flexibility to competitively set pricing to attract this group of boaters.

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The phase-in market rates will cease in FY 2017/2018, with all tenants paying estimated market rates established in the contract.

Summary of Financial Performance - Total estimated revenue for 2017/2018 is \$4,960,234, and expenses are estimated at \$2,665,181 with an operating income to the Harbor Department of \$2,295,053. As mentioned above, operating expense percentage ratios are expected to achieve market standards following stabilization of CWM expenses and fees. Despite prior overestimated revenue projections, Westrec has been successful in substantially increasing net operating income to the Harbor Department on a year-over-year basis with net operating income increasing by 277 percent in FY 2014/2015, 45 percent in FY 2015/2016, projected increase of 43 percent in FY 2016/2017, and projected 11 percent increase in FY 2017/2018.

Current Operator Compensation – On a monthly basis, Westrec deducts its 4 percent management fee as an operating expense from the revenue generated from slip and dry boat storage rents collected, which on average is approximately \$147,351 per year over FYs 2013/2014 to 2015/2016.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of the FY 2017/2018 operating budget under the Agreement with Westrec for the operation, management and maintenance of CWM. As an administrative activity, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

**FINANCIAL IMPACT:**

Based on the actuals for periods 2014/2015 and 2015/2016, the Harbor Department had a realized operating income of \$2,460,189 for that two-year period and is expected to net \$2,075,096 for FY 2016/2017 and \$2,295,053 for FY 2017/2018 based on the estimated revenue and the proposed 2017/2018 budget. These calculations are outlined below:

Budget Year	Revenue	Expenses*	Expense % of Revenue	Operating Income to POLA	Annual Operating Income Increase
2014/2015	\$2,744,034	\$1,739,183	63%	\$1,004,851	Base Year
2015/2016	\$3,825,625	\$2,370,287	62%	\$1,455,338	45%
2016/2017 (Estimated)	\$4,582,845	\$2,507,749	55%	\$2,075,096	43%
2017/2018 (Estimated & Proposed)	\$4,960,024	\$2,665,181	54%	\$2,295,053	11%

\*Includes Westrec's 4 percent management fee

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**CITY ATTORNEY:**


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

**TRANSMITTAL:**


1. Five-year Revenue and Expense Budget (FY 2013/2014 – FY 2017/2018)

  
MICHAEL J. GALVIN  
Director of Waterfront & Commercial Real Estate

FIS Approval: MB (Initials)  
CA Approval: JW (Initials)

  
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Deputy Executive Director

APPROVED:

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BL651mnm Westrec Annual Budget