



**THE PORT  
OF LOS ANGELES**

Executive Director's

Report to the

Board of Harbor Commissioners

**DATE: NOVEMBER 28, 2017**

**FROM: WATERFRONT & COMMERCIAL REAL ESTATE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - APPROVAL OF ANNUAL BUDGET COVERING FISCAL YEAR 2018/2019 FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125**

**SUMMARY:**

Staff requests approval of the annual budget for Fiscal Year (FY) 2018/2019 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 2018/2019 continues to improve on past FY performance in both operating income and operating expense percentage ratio to total revenue thereby increasing net income. Westrec's proposed FY 2018/2019 budget continues an upward trend in revenue with a projected twenty-five percent increase from FY 2016/2017's actuals. The operating expense percentage ratio to total revenue is also expected to improve to 53 percent of total revenue down from 55 percent in FY 16/17, which continues a positive trend from previous years. Because 2017/2018 results are not yet available, actuals from the previous FY 2016/2017 were used for comparison and analysis purposes.

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 operating revenues and expenses. The subsequent annual operating budgets for FY 2014/2015 through FY 2017/2018 were previously approved by the Board. No Harbor Department funds are being requested for this proposed action.

**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 2018/2019 under Agreement No. 13-3125; and
3. Adopt Resolution No. \_\_\_\_\_

**SUBJECT: APPROVAL OF FY 2018/2019 ANNUAL BUDGET FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125**

**DISCUSSION:**

Proposed Action – Staff requests Board approval of CWM's annual budget for FY 2018/2019 (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 consists of 692 recreational berthing 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 boat slip tenants. Pursuant to the terms and conditions of the Agreement, Westrec was required to annually phase in slip rate increases for the existing boat slip tenants to gradually bring those tenants boat slip rates up to market over a three-year period. Boat slip tenants entering CWM after August 1, 2010 were charged at that market rate for the time period and included annual increases. Slip and dry boat storage rates are based on the overall length of the vessel or slip whichever is greater. The phasing of slip rates for existing boat slip tenants was completed in June 2017. All boat 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, 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.

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 2018/2019 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.

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During staff's review of the proposed budget for FY 2018/2019, notable variations from the FY 2016/2017 actual expenses were noted in several budget line items which required additional justification. Those line items include budget categories under the proposed operating expenses. Regarding expense categories, Westrec provided adequate explanation for each line item in question, and it was determined that those budget allocations were justified.

PROPOSED OPERATING BUDGET				
FY 2018/2019 JUSTIFICATION				
Description	FY 2016/2017	FY 2017/2018	FY 2018/2019	Variance Justification
	Actuals	Proposed and Approved	Proposed	
<b>Expenses</b>				
<b>Operations, Maintenance, Administration:</b>				
Security	\$535,394	\$550,948	\$683,344	Includes an increase in monthly fee due to increased slip rentals and additional security guards for growing amounts of POLA events and former security responsibilities transferred over from Marina staff. Increased slip rentals and events required 1 additional guard for all 3 shifts at the marina and 1 additional guard for 2 shifts at the dry boat storage.
Gardening/Landscaping	\$121,521	\$94,553	\$168,280	Responsibilities transferred from C&M Division via the First Amendment to the Operating Agreement approved by BHC on 2/16/17 including tree trimming, weed control, mulching, replacing water burms, etc.
Refuse	\$25,617	\$38,004	\$39,860	Due to additional scheduled public events and additional refuse and recycling bins.
Filters	\$1,470	\$1,545	\$17,500	Includes having drain filters replaced and vaults cleaned every other year. Expected to occur in FY 2018/2019.
Lighting	\$42,948	\$148,012	\$55,800	Responsibilities transferred from C&M Division via the First Amendment to the Operating Agreement approved by BHC on 2/16/17 including inspections, repair/replacement of all facility lighting. Majority of work taking place in FY 2017/2018 and lower expenses expected in FY 2018/2019.
Sub-contracting Services	\$462,084	\$530,658	\$571,610	Includes dry boat storage fee which required additional staff to operate new 3 <sup>rd</sup> crane.
Marina Staff	\$720,027	\$402,703	\$580,545	A decrease of four staff members effective Jan 4, 2017 with one position being refilled in Mar 2017. Other positions not refilled as those responsibilities transferred over to sub-contractors.

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.

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For FY 2016/2017, CWM actual expenses were at 63 percent of revenue with a net income ratio of 37 percent. CWM's below industry standard ratio in FY 2016/2017 is due to the marina continuing through the initial stabilization period and associated occupancy of 66 percent. The projected 2018/2019 expense percentage of revenues is 53 percent with the projected net income ratio for 2018/2019 at 47 percent. The FY 2018/2019 expense to revenue ratio is projected to exceed industry standards partly due to an expected increased occupancy rate of 72 percent roughly equaling 500 vessels by June 2019 compared to the current occupancy rate of 66 percent equaling 468 vessels.

Summary of Financial Performance - Total estimated revenue for 2018/2019 is \$5,811,951, and expenses are estimated at \$3,078,868 with an estimated operating income to the Harbor Department of \$2,733,083. As mentioned above, operating expense percentage ratios are expected to exceed market standards following stabilization of CWM expenses and an increase in revenue through higher slip occupancy and the end of existing tenant rate phasing. 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, and 17 percent in FY 2016/2017. Actual percentages for the current FY 2017/2018 have not been established due to the fact that the marina is still operating within the FY and actuals have not yet been determined.

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. The three-year average fee for this category including FY 2016/2017 (actual), FY 2017/2018 (approved projected) and FY 2018/2019 (projected), is \$205,726.

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of the FY 2018/2019 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 administratively 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 FY 2016/2017, the Harbor Department had realized an operating income of \$1,703,795 and is expected to net \$2,224,472 for FY 2017/2018 and \$2,733,083 for FY 2018/2019 based on the estimated revenue and the proposed FY 2018/2019 budget. These calculations are outlined below:

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Budget Year	Revenue	Expenses*	Expense % of Revenue	Operating Income to POLA	Annual Operating Income Increase
2015/2016	\$3,825,625	\$2,370,287	62%	\$1,455,338	45%
2016/2017	\$4,667,280	\$2,963,485	63%	\$1,703,795	17%
2017/2018 (Estimated)	\$4,962,028	\$2,737,556	55%	\$2,224,472	31%
2018/2019 (Estimated)	\$5,811,951	\$3,078,868	53%	\$2,733,083	23%

\* Includes Westrec's 4 percent management fee

**CITY ATTORNEY:**

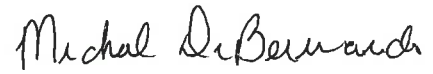
The Office of the City Attorney has reviewed this Board Report and has no legal issues at this time.

**TRANSMITTAL:**

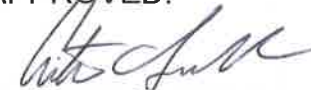
- 1. FY 2015/2016 – FY 2018/2019 Budget

FIS Approval:  (Initials)  
 CA Approval:  (Initials)

  
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APPROVED:

  
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