



Executive Director's

Report to the
Board of Harbor Commissioners

DATE: JUNE 6, 2024

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF ANNUAL BUDGET COVERING FISCAL YEAR 2025 FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

SUMMARY:

Staff requests approval of the annual budget for Fiscal Year 2025 (FY 2025) for the operation of Cabrillo Way Marina (CWM) by Westrec Marina Management, Inc. (Westrec) under Agreement No. 13-3125 (Agreement). The Agreement was approved by the Board of Harbor Commissioners (Board) in 2013 for Westrec to manage CWM as a fee operator, while passing through all expenses and revenue to the City of Los Angeles Harbor Department (Harbor Department). Westrec's estimated FY 2025 revenue is \$9,196,674 with total expenses of \$4,036,133. FY 2025 proposed net income of \$5,160,541 results in a net profit margin of 56.1 percent, an increase from the FY 2024 approved budget margin of 54.1 percent.

RECOMMENDATION:

It is recommended that the Board of Harbor Commissioners:

1. Find that the Director of Environmental Management has determined 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;
2. Approve the Westrec Marina Management, Inc. annual budget for Fiscal Year 2025 under Agreement No. 13-3125; and
3. Adopt Resolution No. _____.

DISCUSSION:

Background – CWM consists of approximately 64.14 acres of land and water in San Pedro. The premises currently consist of 692 wet slips, 375 dry boat storage stalls, and 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 but are operated and maintained by Westrec.

As per Agreement No. 13-3125, Exhibit B-1, Section 5.1.2, "During the term of the Agreement, Operator shall work with the City to develop and agree upon an Annual Budget for the operation of the Marina pursuant to the Agreement, for approval by the City..." Therefore, CWM has submitted its FY 2025 budget for the Board's consideration and approval.

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Budget Review Process – Staff recently initiated and completed a review and analysis of the past, current, and future year’s budget, and Westrec provided information and documentation to support and justify the proposed budget. 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 2025 proposed budget submission, as well as a comparison to the FY 2023 actuals and FY 2024 approved budget figures for certain key revenue and expense categories.

TABLE 1: COMPARISON OF FY 2025 PROPOSED BUDGET KEY FIGURES TO FY 2023 ACTUALS AND THE FY 2024 APPROVED BUDGET

In \$	FY 2023 Actuals	FY 2024 Approved	FY 2025 Proposed	\$ Variances - FY 2025 vs.		% Variances - FY 2025 vs.	
				FY 2023 Actuals	FY 2024 Approved	FY 2023 Actuals	FY 2024 Approved
Wet Slip Rentals	6,836,247	6,542,408	7,331,443	495,196	789,035	7.2%	12.1%
Other Revenues	1,721,977	1,916,890	1,865,231	143,254	(51,659)	8.3%	(2.7%)
(A) Total Revenues	8,558,224	8,459,298	9,196,674	638,450	737,376	7.5%	8.7%
Payroll	789,346	855,777	919,628	130,282	63,851	16.5%	7.5%
Security	645,809	743,448	778,392	132,583	34,944	20.5%	4.7%
Sub-Contracting Svcs.	557,693	600,665	654,580	96,887	53,915	17.4%	9.0%
Management Fee	342,328	338,372	367,867	25,539	29,495	7.5%	8.7%
Docks & Related	188,129	388,334	262,980	74,851	(125,354)	39.8%	(32.3%)
Janitorial & Custodial	135,151	147,780	159,828	24,677	12,048	18.3%	8.2%
Office Supplies	193,316	56,992	111,540	(81,776)	54,548	(42.3%)	95.7%
Grounds	111,242	9,900	73,090	(38,152)	63,190	(34.3%)	638.3%
Other Expenses	636,748	740,406	708,228	71,480	(32,178)	11.2%	(4.3%)
(B) Total Expenses	3,599,762	3,881,674	4,036,133	436,371	154,459	12.1%	4.0%
(C) Net Income (A - B)	4,958,462	4,577,624	5,160,541	202,079	582,917	4.1%	12.7%
<i>Net Income Ratio % (C / A)</i>	<i>57.9%</i>	<i>54.1%</i>	<i>56.1%</i>				

Operating Revenue and Expense Summary – Annual revenues include, but are not limited to, wet slip rent, dry boat storage rent, guest slip fees, live-a-board rent, coin operated laundry machine collection, storage locker fees, and vending machine 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 incurred.

Annual operating expenses include, but are not limited to, a management fee equal to 4 percent of total revenues, staffing expenses, including salary, benefits and contractual ordinances, as well as sub-contracting, insurance, maintenance, and security.

Revenue Discussion – Total revenue within the FY 2025 proposed budget is expected to be \$9,196,674, which represents a \$737,376, or 8.7 percent, increase relative to the FY 2024 approved budget and an increase of \$638,450, or 7.5 percent, relative to FY 2023

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actuals. FY 2025 revenue growth is expected to occur due to a 5 percent increase in rates to be applied in September 2024, and an increase in wet slip occupancy from 85.9 percent in FY 2023 to 88 percent in FY 2024.

Expense Discussion – Total expenses within the FY 2025 proposed budget are expected to be \$4,036,133 which represents a \$154,459, or 4.0 percent, increase relative to the FY 2024 approved budget and an increase of \$436,371, or 12.1 percent, relative to FY 2023 actuals. The increase in total expenses from the FY 2024 approved budget is primarily due to higher payroll benefits, proposed paint and roof repairs, and increased costs in debit credit card processing fees.

Payroll expenses of \$919,628 represent a \$63,851, or 7.5 percent, increase from the FY 2024 approved budget of \$855,777. The FY 2025 Budget proposal for payroll reflects salary, payroll taxes, and related benefits. This includes a 5 percent increase in salary for current employees and a benefits costs increase of \$26,090.

Grounds expenses of \$73,090 represent a \$63,190, or 638.3 percent, increase from the FY 2024 approved budget of \$9,900. This includes a \$55,000 cost for refreshing exterior paint, replacing foam framing with wood, and roof maintenance on all buildings. These maintenance costs are not regular costs but are necessary to continue adequately maintaining the marina.

Office Supplies of \$111,540 represent a \$54,548, or 95.7 percent, increase from the FY 2024 approved budget of \$56,992. This line item contains debit/credit card processing fees. Beginning April 1, 2023, Westrec began charging customers 2.5 percent convenience fee for processing credit card payments to offset the credit card fees. Many customers are switching their form of payment to debit cards, therefore there will continue to be base fees associated with accepting debit cards. Westrec plans to upgrade the marina management system to fully automate the process of capturing all customer charges. This will also allow the marina to accept ACH payments from customers, which will further reduce credit and debit fees in the future.

Current Operator Compensation – On a monthly basis, Westrec deducts its 4 percent management fee as an operating expense from total revenues. The FY 2025 proposed budget includes a management fee of \$367,867, which represents 4 percent of \$9,196,674 in FY 2025 proposed total revenues. Increases in Westrec's management fee are consistent with the increases in FY 2025 proposed total revenues relative to the FY 2024 approved budget and FY 2023 actuals.

Net Income Summary – Net income within the FY 2025 proposed budget is expected to be \$5,160,541, which represents a \$582,917, or 12.7 percent, increase relative to the FY 2024 approved budget and a \$202,079, or 4.1 percent, increase relative to FY 2023 actuals.

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 margin of 44 percent, excluding rent payments to municipal landlords. Although

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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, a high land-to-water ratio, and slip mix favoring larger vessels. CWM is positively affected by its proximity to open water, age, and physical condition. Westrec's 56.1 percent net income margin for the FY 2025 proposed budget exceeds industry standards for net income margin. Although net income margin is anticipated to slightly decrease by 1.8 percentage points relative to the FY 2023 actual budget, the FY 2025 proposed figure represents a 2.0 percentage point increase relative to the FY 2024 budgeted net income margin of 54.1 percent.

Proposed Action – Staff requests Board approval of CWM's annual budget for FY 2025 (Transmittal 1). An analysis of these future operating revenues and expenses was conducted, as well as a thorough review of and comparison with past operating expenses and revenues. It was determined that the proposed annual budget is appropriate for CWM's continued operations.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the FY 2025 annual budget for the operation of CWM by Westrec, which is an administrative activity. Therefore, 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:

Approval of Westrec's FY 2025 annual budget is an administrative activity under 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 (Land Rentals), while operating expenses incurred by Westrec are recorded as tenant credits within Account 49070 (Credits for Tenant Services).

Based upon FY 2023 actuals, the Harbor Department realized net receipts of \$4,958,462. Based upon the FY 2024 approved budget and the FY 2025 proposed budget, the Harbor Department anticipates net receipts of \$4,577,624 and \$5,160,541, respectively. Historical and projected financial information has been summarized below:

TABLE 2: WESTREC HISTORICAL AND PROJECTED FINANCIALS

	FY 2020 Actuals	FY 2021 Actuals	FY 2022 Actuals	FY 2023 Actuals	FY 2024 Approved	FY 2025 Proposed
(A) Total Revenues	\$6,205,946	\$6,802,544	\$7,994,448	\$8,558,224	\$8,459,298	\$9,196,674
(B) Total Expenses	\$3,284,154	\$3,066,177	\$3,441,747	\$3,599,762	\$3,881,674	\$4,036,133
(C) Net Income (A - B)	\$2,921,792	\$3,736,367	\$4,552,701	\$4,958,462	\$4,577,624	\$5,160,541
<i>Net Income % Change</i>	<i>(2.6%)</i>	<i>27.9%</i>	<i>21.8%</i>	<i>8.9%</i>	<i>(7.7%)</i>	<i>12.7%</i>
<i>Expense Ratio (B / A)</i>	<i>52.9%</i>	<i>45.1%</i>	<i>43.1%</i>	<i>42.1%</i>	<i>45.9%</i>	<i>43.9%</i>
<i>Income Ratio (C / A)</i>	<i>47.1%</i>	<i>54.9%</i>	<i>56.9%</i>	<i>57.9%</i>	<i>54.1%</i>	<i>56.1%</i>

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MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

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 2025 Budget

FIS Approval: 
CA Approval: 

Michael J. Galvin
MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate

Dina Aryan-Zahlan for
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APPROVED:

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