



**THE PORT
OF LOS ANGELES**
Executive Director's
Report to the
Board of Harbor Commissioners

DATE: NOVEMBER 29, 2016

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF ANNUAL BUDGETS COVERING FISCAL YEARS 2014/2015, 2015/2016 AND 2016/2017 FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

SUMMARY:

Staff requests approval of the annual budgets for the fiscal years covering the periods of 2014/2015, 2015/2016 and 2016/2017 under Agreement No. 13-3125 between Westrec Marina Management, Inc. (Westrec) and the City of Los Angeles Harbor Department (Harbor Department). Agreement 13-3125 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.

Agreement No. 13-3125 has a five-year term (July 1, 2013 through June 30, 2018), with two five-year option periods to extend the term. Exhibit B of Agreement No. 13-3125 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 fiscal year 2013/2014 was approved at the Agreement's inception and was provided as an estimate of the proposed revenues and expenses.

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 years 2014/2015, 2015/2016, and 2016/2017 under Agreement No. 13-3125; and
3. Adopt Resolution No. _____.

DISCUSSION:

Background – Agreement No. 13-3125 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 conveying all expenses and revenue to the Harbor Department. CWM consists of

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approximately 64.14 acres of land and water in San Pedro, with 697 recreational berthing slips, 325 dry boat storage stalls, two cranes for boat hoisting, pump out stations, parking lots, promenades, boater facilities, and public restrooms. CWM was constructed in an area that included an existing marina and existing slip tenants. All improvements are owned by the Harbor Department and maintained by Westrec.

Existing Slip Tenants – Pursuant to the terms and conditions of Agreement No. 13-3125, 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 by 2017. Boat slip tenants entering CWM after August 1, 2010 were charged market rates, including annual increases. The phasing of rental adjustments for the former boat tenants will be completed by June 2017, at which time all tenants will be charged the same slip rates. Slip and dry boat storage rates are determined by 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 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.

Budget Process Summary – Pursuant to the terms and conditions of Agreement No. 13-3125, Westrec is required to submit its proposed annual budget to the Harbor Department for approval by December 1st of each year. Although Westrec submitted its proposed budget annually for the fiscal years of 2014/2015 and 2015/2016, the budgets were not presented to the Board for approval at that time. The delay was due to a misinterpretation of the approval process, as well as changes in Real Estate Division staffing. Additionally, gathering and reviewing the supporting documentation from Westrec for the 2014/2015, 2015/2016 and 2016/2017 budget periods has been a lengthy process that commenced in May 2016. Staff has since implemented an annual reminder notification procedure to ensure adequate time is allotted to meet the annual budget approval schedules.

At the inception of Agreement No. 13-3125, Westrec was provided a start-up budget of \$364,000 to be allocated within the first two years of operation; \$244,000 in fiscal year 2013/2014 and \$120,000 in fiscal year 2014/2015. However, not all funds were expended within the first two-year period of operation due to delays in starting 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 years three and four. Westrec provided documentation supporting its start-up expenditures (Transmittal No. 1).

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Proposed Action – Staff requests Board approval of the annual budgets for the fiscal years of 2014/2015, 2015/2016 and 2016/2017. 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 2013/2014, as well as its actual expenses/revenues, are provided in Transmittal No. 2. CWM's proposed operating budget covering the three fiscal year periods of 2014/2015, 2015/2016 and 2016/2017, as well as actuals for 2014/2015 and 2015/2016, are provided in Transmittal No. 3.

Staff recently initiated and completed an extensive review and analysis of the past, current, and future year's budget and found the annual budgets 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 operations.

During staff's review of the proposed budget for 2016/2017, it was noted that some budget line items required additional clarification and supporting documentation. Those line items include budget categories under the proposed operating expenses and proposed revenues. Westrec provided adequate explanation for each line item in question and it was determined that those allocations are justified (Transmittal No. 4).

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. For FY 2015/2016, CWM expenses were at 62 percent of revenues with a net income of 38 percent. This is due to CWM being only 37 percent occupied, and approximately 150 slip tenants from the old marina paying lower rates than those slip tenants occupying slips after August 1, 2010. It is anticipated that after CWM becomes fully occupied and all reduced slip tenant rates are phased out, percentage ratios will stabilize in line with industry standards.

While total annual revenue is expected to average \$4,571,197 over the three fiscal year periods, expenses are expected to average \$2,304,700 (actual for 2014/2015 & 2015/2016 and proposed for 2016/2017), with an annual operating income to the Harbor Department averaging \$2,266,497.

Current Operator Compensation – On a monthly basis, Westrec deducts its four percent management fee as an operating expense from the revenue generated from slip and dry boat storage rents collected, which on average is approximately \$183,000 per year over the past three-year budget periods.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of the annual budgets under Agreement No. 13-3125 between Westrec and the Harbor Department 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 under Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

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FINANCIAL IMPACT:

Based on the proposed budget and actuals for the periods of 2014/2015 and 2015/2016, the Harbor Department had a realized operating income of \$2,460,188 for that two-year period and is expected to net \$4,339,304 for fiscal year 2016/2017 based on the estimated revenue and the proposed 2016/2017 budget. These calculations are outlined below:

Budget Year	Revenue	Expenses*	Operating Income to POLA
2014/2015	\$ 2,744,033	\$ 1,739,183	\$ 1,004,850
2015/2016	\$ 3,825,625	\$ 2,370,287	\$ 1,455,338
2016/2017 (Estimated & Proposed)	\$ 7,143,934	\$ 2,804,630	\$ 4,339,304
Total	\$ 13,713,592	\$ 6,914,100	\$ 6,799,492

*Includes Westrec's four percent management fee

CITY ATTORNEY:

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

TRANSMITTALS:

1. Start-Up Summary
2. Proposed Budget FY 13/14 vs Actuals
3. Proposed Budget FY 14/15, FY 15/16 vs Actuals; Proposed Budget FY 16/17
4. Operating Budget FY 15/16 vs Actuals; Proposed FY 16/17 Justifications

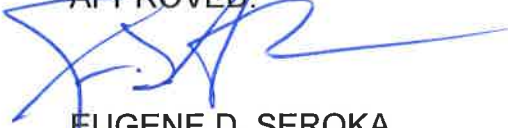

 MICHAEL J. GALVIN
 Director of Waterfront & Commercial Real Estate

FIS Approval:  (Initials)

CA Approval:  (Initials)


 MICHAEL DiBERNARDO
 Deputy Executive Director

APPROVED:


 EUGENE D. SEROKA
 Executive Director