



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: MAY 24, 2022

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF ANNUAL BUDGET COVERING FISCAL YEAR 2023 FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

SUMMARY:

Staff requests approval of the annual budget for Fiscal Year (FY) 2023 for 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 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 2023 revenue is \$7,996,187 with total expenses of \$3,523,660. FY 2023 proposed net income of \$4,472,527 results in a net profit margin of 55.9 percent an increase from FY 2022 approved budget margin of 48.4 percent and FY 2021 actual net profit margin of 54.9 percent.

RECOMMENDATION:

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

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 2023 under Agreement No. 13-3125; and
3. Adopt Resolution No. _____.

DISCUSSION:

Proposed Action – Staff requests Board approval of CWM's annual budget for FY 2023 (Transmittal No.1). An analysis of these future operating expenses and revenues 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.

Background – CWM consists of approximately 64.14 acres of land and water in San Pedro. The premises currently consist of 769 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.

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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 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.

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 2023 to be satisfactory. 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 2023 proposed budget submission, as well as a comparison to the FY 2021 actuals and FY 2022 approved budget figures for certain key revenue and expense categories.

TABLE 1: COMPARISON OF FY 2023 PROPOSED BUDGET KEY FIGURES TO FY 2021 ACTUALS AND THE FY 2022 APPROVED BUDGET

In \$				\$ Variances - FY 2023 vs.		% Variances - FY 2023 vs.	
	FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2021	FY 2022
	Actuals	Approved	Proposed	Actuals	Approved	Actuals	Approved
Wet Slip Rentals	5,221,118	5,170,929	6,235,000	1,013,882	1,064,071	19.4%	20.6%
Other Revenues	1,581,426	1,613,560	1,761,187	179,761	147,627	11.4%	9.1%
(A) Total Revenues	6,802,544	6,784,489	7,996,187	1,193,643	1,211,698	17.5%	17.9%
Marketing	32,475	86,700	54,500	22,025	-32,200	67.8%	-37.1%
Office Supplies	176,094	162,650	120,188	-55,906	-42,462	-31.7%	-26.1%
Insurance	90,162	82,000	105,550	15,388	23,550	17.1%	28.7%
Refuse Collection	60,995	55,500	70,800	9,805	15,300	16.1%	27.6%
Other Expenses	2,706,451	3,113,944	3,172,622	466,171	58,678	17.2%	1.9%
(B) Total Expenses	3,066,177	\$3,500,794	\$3,523,660	457,483	22,866	14.9%	0.7%
(C) Net Income (A - B)	3,736,367	\$3,283,695	\$4,472,527	736,160	1,188,832	19.7%	36.2%
Net Income % (C / A)	54.9%	48.4%	55.9%				

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Total revenue within the FY 2023 proposed budget is expected to be \$7,996,187, which represents a \$1,211,698 (17.9 percent) increase relative to the FY 2022 approved budget and an increase of \$1,193,643 (17.5 percent) relative to FY 2021 actuals. FY 2023 revenue growth is expected to occur due to an increase in wet slip occupancy from 74.5 percent in 2021 to 83.6 percent in FY 2022.

Total expenses within the FY 2023 proposed budget are expected to be \$3,523,660 which represents a \$22,866 (0.7 percent) increase relative to the FY 2022 approved budget and an increase of \$457,483 (14.9 percent) relative to FY 2021 actuals. The slight increase in total expenses from 2022 is primarily due to offsets between reductions in marketing budget, transitioning credit card fees to tenants, and increases from living wage adjustments, additional staffing needs, and increased insurance costs.

Payroll expenses of \$811,317 have increased by \$44,835, an increase of 5.8 percent, due to cost-of-living increases and the addition of one full-time administrator to meet increased occupancy. The management fee is calculated at four percent of gross revenues; therefore, increased occupancy has increased the management fee by \$50,435 (18.7 percent) to \$319,847 as compared to FY 2022. Insurance expenses for FY 2023 are also expected to rise at \$105,550, an increase of \$23,550 (28.7 percent) from FY 2022.

Despite these increased costs, Marketing and Office Supplies are expected to decrease by \$32,200 and \$42,462, respectively. With the Marina nearing full occupancy, they no longer have the slips available to host the annual So Cal Boat Show, eliminating a large portion of the marketing budget. Sponsorships in the amount of \$19,500 were also removed from the Marketing budget this year because these sponsorships are funded by the Port of Los Angeles (Port) and were not serving to promote CWM. Additionally, the Port is already sponsoring these organizations under the Port name. Aside from Marketing, Office Supplies which consists of office supplies, computer maintenance, credit card processing fees, etc.; are expected to decrease to \$120,550. This is a decrease of 26.1 percent from FY 2022, due to transitioning credit card fees to tenants, which is common practice for recreational marinas in the area. A survey of the surrounding marinas in San Pedro and Wilmington indicated that out of nine marinas: seven charge credit card fees back to their tenants, while only two absorb the costs themselves.

Net income within the FY 2023 proposed budget is expected to be \$4,472,527, which represents a \$1,188,832 (36.2 percent) increase relative to the FY 2022 approved budget and a \$736,160 (19.7 percent) increase relative to FY 2021 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 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 ships.

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CWM is positively affected by its close proximity to open water, age, and physical condition. Westrec's 55.9 percent net income margin for the FY 2023 proposed budget exceeds industry standards for net income margin.

Current Operator Compensation – On a monthly basis, Westrec deducts its four 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 approval of the annual budget for FY 2023 for operations of Cabrillo Way Marina by Westrec Marina Management, Inc. under Agreement No. 13-3125, 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 2023 proposed 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 2021 actuals, the Harbor Department realized net receipts of \$3,736,367. Based upon the FY 2022 approved budget and the FY 2023 proposed budget, the Harbor Department anticipates respective net receipts of \$3,283,695 and \$4,472,527. Historical and projected financial information has been summarized below:

TABLE 2: HISTORICAL AND PROJECTED FINANCIAL SUMMARY

In \$	FY 2019 Actuals	FY 2020 Actuals	FY 2021 Actuals	FY 2022 Approved	FY 2023 Proposed
(A) Total Revenues	5,983,024	6,205,946	6,802,544	6,784,489	7,996,187
(B) Total Expenses	2,983,782	3,284,154	3,066,177	\$3,500,794	\$3,523,660
(C) Net Income (A - B)	2,999,242	2,921,792	3,736,367	3,283,695	4,472,527
Income Growth %	21.8%	-2.6%	27.9%	-12.1%	36.2%
Expense % (B / A)	49.9%	52.9%	45.1%	51.6%	44.1%
Net Income % (C / A)	50.1%	47.1%	54.9%	48.4%	55.9%

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As summarized above, FY 2023 Proposed Total Revenues have grown at an average annual rate of 6.8 percent relative to FY 2018 Actuals primarily due to increased occupancy which has grown from 74.5 percent in FY 2021 to 83.6 percent in FY 2022. On the other hand, FY 2023 Proposed Total Expenses have grown at an average annual rate of 3.6 percent relative to FY 2018 Actuals due to cost of living increases and higher operations and maintenance expenses arising from higher occupancy levels. Furthermore, since 2018, the Harbor Department has transferred additional landscaping and lighting service responsibilities to Westrec, and costs associated with these new responsibilities have increased accordingly. Annual average revenue growth is anticipated to exceed annual average expense growth such that the FY 2023 Proposed Net Income Ratio of 55.9 percent represents a 5.8 percentage point increase relative to the Net Income Ratio of 50.1 percent achieved in FY 2018.

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 2023 Budget

FIS Approval: *MB*
CA Approval: *SO*

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