



THE PORT
OF LOS ANGELES
Executive Director's
Report to the

Board of Harbor Commissioners

DATE: MAY 29, 2013

FROM: REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - CABRILLO WAY MARINA OPERATING AGREEMENT WITH WESTREC MARINA MANAGEMENT, INC.

SUMMARY:

The Cabrillo Way Marina (Marina), located within the West Channel Basin in San Pedro, consists of 64.14 acres of water and land area and encompasses 697 recreational berthing slips, a 400 dry boat storage area, two crane hoists, a promenade walkway, and related boater and public facilities.

In August 2010, the City of Los Angeles Harbor Department (Harbor Department) released a Request for Proposal (RFP) for an operator of the Marina. Six proposals were received by the submittal deadline of November 16, 2010. In February 2012, the review panel selected and recommended Westrec Marina Management, Inc. (Westrec) to operate the Marina under a five-year agreement, with two, five-year options for renewal.

Staff is proposing to enter a five-year Operating Agreement with Westrec, with two, five-year options to renew for the operation, management and maintenance of the Marina. The renewal options, at the direction of the Harbor Department, will be based on operational performance evaluations to be conducted annually, as well as monthly and annual monitoring of submitted financial reports and documentation.

RECOMMENDATION:

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

1. Find that in accordance with the Los Angeles City Charter Section 1022, it is more feasible for an outside contractor to perform recreational marina management services than City employees;
2. Approve the Agreement with Westrec Marina Management, Inc.;
3. Direct the Board Secretary to transmit the Operating Agreement to the City Council for approval pursuant to Charter Sections 606;
4. Authorize the Executive Director to execute and the Board Secretary to attest to the Agreement effective upon approval by City Council; and
5. Adopt Resolution No. _____.

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DISCUSSION:

Background/Context – Development of the Cabrillo Way Marina (Transmittal 1) was initiated in February 2009. Construction was conducted in two phases. Phase I was completed on July 1, 2010, and consists of approximately 20.69 acres of land and water and 348 recreational boating slips. Construction of Phase II was completed in November 2011 and provides approximately 43.45 additional new acres of land and water, 349 additional slips, a dry boat storage facility, and related facilities.

Phase I of the Marina is currently operated, managed, and maintained by Westrec under Agreement No. 10-2883. The additional area developed under Phase II remains vacant. The short-term Operating Agreement was approved by the Board at its meeting of June 17, 2010, and provided for the temporary operation of the Marina until a long-term agreement could be executed through the competitive bid process. Under Agreement No. 10-2883, Westrec is required to enter into new slip assignment agreements with each boater on behalf of the Harbor Department, collect rents and deposit funds, and oversee the day-to-day operations of the Marina.

Selection Process – In August 2010, the Harbor Department released an RFP for an operator of the Marina. Six proposals were received by the submittal deadline of November 16, 2010 from the following companies: Beauchamp Realty, Cabrillo Landing, Cabrillo Way LLC (LAYC/Almar), California Yacht, Goldrich & Kest, and Westrec. In April 2011, an evaluation team consisting of five Harbor Department staff members from various divisions familiar with marina operations and a representative from the Los Angeles County Department of Recreation and Beaches, recommended the selection of Cabrillo Way LLC, a joint venture of Los Angeles Yacht Club and Almar Management. Once the respondents were notified of the proposed selection the evaluation team had made, the selection was challenged by another proposer based on a claim that one respondent had gained an unfair advantage through relationships with members of the evaluation team. While there was no evidence regarding a perceived conflict with members of the initial evaluation team, it was decided to convene a new evaluation panel to review the proposals. The six respondents were notified of the second evaluation process in July 2011.

In August 2011, the second evaluation team was established and began the review of the original proposals. The second evaluation team consisted of one Harbor Department staff member and four individuals from the private sector which included an attorney with Musick, Peeler & Garrett; a retired marina manager from the City of Long Beach; an Executive Vice President from Pasha Stevedoring; a retired Vice President from Ports America; and the Harbor Department's Director of Planning & Economic Development. Interviews were held with the proposers on September 27th and October 4th.

Proposal Review - After a review of the written proposals and interviews with each of the respondents, Westrec received the highest score. The results of the evaluation, using the following scoring criteria identified in the RFP are stated below:

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- Marina management qualifications, experience and references
- Demonstrated success in providing requisite marina management services identified in the RFP
- Financial capability
- General management and operating plan
- Compensation to the Harbor Department
- Quality and responsiveness of proposal

SCORES							
Proposer	Rater #1	Rater #2	Rater #3	Rater #4	Rater #5	Total Score	Average
Proposer 1 - Westrec Marina	97	79.5	83	93	63	415.5	83.1
Proposer 2	79	79	86	96	67	407	81.4
Proposer 3	68	78.5	72	78	52	348.5	69.7
Proposer 4	92	61	83	60	50	346	69.2
Proposer 5	63	77.5	86	78	38	342.5	68.5
Proposer 6	66	67.5	77	55	51	316.5	63.3

Selection Basis – As reflected by the proposal review and evaluation score, Westrec has extensive experience operating marinas, financial capability to assume marina operations, and appropriate management fee and budget assumptions. Westrec has over 20 years of experience managing and operating a number of marinas throughout the United States. Currently, Westrec manages over 25 marina facilities throughout the United States, managing over 12,000 wet and dry slips. Finally, the Harbor Department staff has been very pleased with Westrec's keen attention to detail on all financial reporting matters.

Financial/Budget Assumptions – The recommendation of Westrec is based on practical financial assumptions, including a conservative vacancy rate, realistic expense and revenue projections, and a management fee structure of four percent of gross revenue, the second lowest management fee proposed. Westrec's vacancy rate assumes a 51 percent rate in Year 1, due to the new area under Phase II. Under Westrec's proposal, it is anticipated that the vacancy rate will be reduced to 14 percent in Year 5, as the result of the required marketing plan that is included in the Scope of Work under the proposed Agreement. Westrec's revenue/expense forecasts also appeared to be reasonable, with \$22.8 million in revenues and \$10.6 million in expenses forecasted during the first five-year period.

References – Contacts were made with several entities that have marina management/operating agreements with Westrec. The entities' relationships with Westrec varied in length from two to over 16 years. These included those that were provided as references by Westrec, as well as one that was not provided. Miami-Dade Park & Recreation Department, the Chicago Park District (CPD), U.S. Army Corps of Engineers (USACE), and the City of Stockton were contacted as references provided by Westrec. Additionally, Marina Shores in Portage, Indiana, was contacted but was not used as a reference by Westrec. Westrec's budgets were thorough, financial information submitted to the organizations was consistent and well documented, and Westrec employed effective marketing and programming activities at the marinas.

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Proposed Agreement Terms – Consistent with the provisions of the RFP, it was determined that a more cost-effective approach to managing the Marina was under an Operating Agreement which also provides increased transparency and accountability of revenue and collections of all slip rate fees, charges, and other associated costs and fees. This new methodology will potentially lead to increased efficiencies of operations and cost controls to provide the Harbor Department optimal revenue generation of the Marina.

Under the proposed Agreement (Transmittal 2), Westrec will receive a monthly management fee, based on four percent of all gross revenue accrued from Marina operations. Consistent with other marina operations throughout greater California and in other states, Westrec will also be responsible for payment of all operational expenses, based on an annual approved budget. The remaining balance of the net operations will be remitted to the Harbor Department on a monthly basis. Stringent reporting and financial controls have been incorporated in the Agreement to insure that there are no cost over-runs and that the Harbor Department is receiving its appropriate share of the revenue. Failure to submit these reporting documents to the Harbor Department on a monthly basis, within a prescribed time period, will be deemed as a basis for potential termination. Furthermore, Westrec will be required to submit financial reports on a yearly basis to substantiate all gross revenue and operational expenses in accordance with an annual budget, approved by the Real Estate Division. Any expenditure by Westrec, not within the context of the approved annual budget, will also require preapproval by the Real Estate Division. Language in the Agreement also allows for an annual audit of all financial matters by the Harbor Department. Finally, any adjustment to slip rate fees and other charges must be approved by the Executive Director to ensure that there is no cost competitive arrangement that would financially disrupt the business and financial models employed at the adjacent marinas, which are under a leasehold arrangement with the Harbor Department.

The following is a summary of the terms of the Operating Agreement:

Term: Five years, with two subsequent five-year options for renewal at the discretion of the Executive Director, for a total term not to exceed 15 years.

Effective Date: Upon approval by the Los Angeles City Council and execution by the Executive Director.

Services to be provided: Management, operation, security, maintenance/repair, and janitorial service to the Marina.

Marketing Plan: Submission of an annual marketing plan, with stated methodologies and objectives, to achieve increased tenancy of the Marina. A specific requirement of the Marketing Plan is that Westrec's efforts are not to impact or impose upon increased vacancy rates of the adjacent San Pedro marinas.

Estimated First Year Operating Revenue and Expenses: See Transmittal 3.

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The above assumptions are based on a pro-forma that takes into consideration that there are current boaters paying slip rate fees below market due to relocation from their previous marina impacted by this new development, and the fact that it will take a certain amount of time for Westrec to obtain full occupancy of the Marina, with 90 percent occupancy generally considered the optimum. Based on these assumptions, estimated first-year revenue to the Harbor Department is \$271,512, due to first year start-up costs. The slip rate increases to bring these boaters to current market will be phased, so as not to create an undue financial burden. For all boaters not impacted by the relocation, and any new boaters, rates charged per linear foot are based on the current market for the entire adjacent Marina area complex, and other local marinas. Language has been added to the Operating Agreement to ensure that there is not any undercutting or incentives to retain boaters from the adjacent marinas. As previously stated, any slip rate increases must be approved by the Executive Director.

ENVIRONMENTAL ASSESSMENT:

The proposed action is approval of an Operating Agreement with Westrec for operation, management, and maintenance of both phases of the Cabrillo Way Marina. Phase 1 is currently operated by Westrec, and construction of Phase 2 was completed in November of 2011 and will become operational under this Agreement. Therefore, as an activity involving the issuance of a permit to use an existing facility involving negligible or no expansion of use, the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with Article III Class 1 (14) of the Los Angeles City CEQA Guidelines.

ECONOMIC BENEFITS:

Operating Cabrillo Way Marina associated with the proposed Agreement with Westrec will support six direct and eight secondary jobs for the five-county region.

FINANCIAL IMPACT:

Consistent with the RFP criteria and the proposal submitted by Westrec, the following five-year snapshot is provided to demonstrate increased overall revenue to the Harbor Department based on the following assumptions:

- Estimated 85% - 90% occupancy, by year five
- Dry boat storage revenue
- Completion of phased rate increases for under-market slips
- Cost efficiencies of fixed operational and maintenance expenses realized through economy of scale from increased tenancy

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CABRILLO WAY MARINA PROPOSED OPERATING BUDGET						
	YEAR 1 July 2013 - June 2014	YEAR 2 July 2014 - June 2015	YEAR 3 July 2015 - June 2016	YEAR 4 July 2016 - June 2017	YEAR 5 July 2017 - June 2018	TOTAL
TOTAL REVENUE	2,276,043	3,583,391	4,607,009	5,614,023	6,682,677	22,763,142
TOTAL EXPENSES	2,004,531	1,929,932	2,060,514	2,228,102	2,410,579	10,633,658
Estimated Net Income to Port	\$271,512	\$1,653,459	\$2,546,495	\$3,385,921	\$4,272,097	\$12,129,484

CITY ATTORNEY:

The Operating Agreement has been approved as to form and legality by the Office of the City Attorney.

TRANSMITTALS:

1. Site Maps
2. Operating Agreement
3. Estimated First Year Operating Revenue and Expenses

FIS Approval: *ef* (initials)
 CA Approval: *Sp* (initials)

for JACK C. HEDGE
 Director of Real Estate

Kathryn McDermott
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