



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

DATE: MAY 24, 2023

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF ANNUAL BUDGET COVERING FISCAL YEAR 2024 FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

SUMMARY:

Staff requests approval of the annual budget for Fiscal Year (FY) 2024 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 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 2024 revenue is \$8,459,298 with total expenses of \$3,881,674. FY 2024 proposed net income of \$4,577,624 results in a net profit margin of 54.1 percent, a decrease from the FY 2023 approved budget margin of 55.9 percent and the FY 2022 actual net profit margin of 56.9 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 2024 under Agreement No. 13-3125; and
3. Adopt Resolution No. _____.

DISCUSSION:

Proposed Action – Staff requests Board approval of CWM's annual budget for FY 2024 (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.

SUBJECT: APPROVAL OF FY 2023 ANNUAL BUDGET FOR WESTREC MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

Operating Expense and Revenue Summary – Annual operating expenses include, but are not limited to, a management fee equal to four percent of total revenues, staffing expenses, including salary, benefits and contractual ordinances, as well as 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 incurred.

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 2024 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 2024 proposed budget submission, as well as a comparison to the FY 2022 actuals and FY 2023 approved budget figures for certain key revenue and expense categories.

TABLE 1: COMPARISON OF FY 2024 PROPOSED BUDGET KEY FIGURES TO FY 2022 ACTUALS AND THE FY 2023 APPROVED BUDGET

In \$	FY 2022 Actual	FY 2023 Approved	FY 2024 Proposed	FY 2024 \$ Variance vs.		FY 2024 % Variance vs.	
				FY 2022 Actuals	FY 2023 Approved	FY 2022 Actuals	FY 2023 Approved
Wet Slip Rentals	6,217,957	6,235,000	6,542,408	324,451	307,408	5.2%	4.9%
Other Revenues	1,776,491	1,761,187	1,916,890	140,399	155,703	7.9%	8.8%
(A) Total Revenues	\$7,994,448	\$7,996,187	\$8,459,298	\$464,850	\$463,111	5.8%	5.8%
Marketing	42,782	54,500	64,450	21,668	9,950	50.6%	18.3%
Lighting	11,181	132,000	14,000	2,819	(118,000)	25.2%	(89.4%)
Telecommunications	25,908	28,021	126,900	100,992	98,879	389.8%	352.9%
Docks and related	270,365	212,940	388,334	117,969	175,394	43.6%	82.4%
Other Expenses	3,091,511	3,096,200	3,287,990	196,479	191,790	6.4%	6.2%
(B) Total Expenses	\$3,441,747	\$3,523,661	\$3,881,674	\$439,927	\$358,013	12.8%	10.2%
(C) Net Income (A - B)	\$4,552,701	\$4,472,526	\$4,577,624	\$24,923	\$105,098	0.5%	2.3%
<i>Net Income Ratio % (C / A)</i>	56.9%	55.9%	54.1%				

SUBJECT: APPROVAL OF FY 2023 ANNUAL BUDGET FOR WESTREC MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

Total revenue within the FY 2024 proposed budget is expected to be \$8,459,298, which represents a \$463,111 (5.8 percent) increase relative to the FY 2023 approved budget and an increase of \$464,850 (5.8 percent) relative to FY 2022 actuals. FY 2024 revenue growth is expected to occur due to a five percent increase in rates starting September 2022, a second rate increase of three percent starting September 2023, and an increase in wet slip occupancy from 83.6 percent in 2022 to 85.9 percent in FY 2023.

Total expenses within the FY 2024 proposed budget are expected to be \$3,881,674 which represents a \$358,013 (10.2 percent) increase relative to the FY 2023 approved budget and an increase of \$439,927 (12.8 percent) relative to FY 2022 actuals. The increase in total expenses from 2023 is primarily due to the proposed installation of a new Wi-Fi system and major repairs under Docks and related.

Telecommunications expenses of \$126,900 represent a \$98,879 (352.9 percent) increase from FY 2023 approved budget of \$28,021. This is due to a proposed upgrade of the Wi-Fi system. The Marina's Wi-Fi system is antiquated, and, with the increase in occupancy and increased use of Wi-Fi on cellular devices, the internet speed has declined. Marina management has removed this service from the amenities list as it does not work well and many complaints were received. This upgrade is expected to include a one-time cost of \$100,000 to upgrade the Wi-Fi throughout the Marina.

Docks and related expenses of \$388,334 represent a \$175,394 (82.4 percent) increase from the FY 2023 approved budget of \$212,940. The increased costs include \$25,000 for additional projected repairs on the docks, \$113,000 in required maintenance for benches and handrails throughout the marina resulting from the typical wear due to the marina's age, and \$65,000 for electrical meter repairs.

Net income within the FY 2024 proposed budget is expected to be \$4,577,624, which represents a \$105,098 (2.3 percent) increase relative to the FY 2023 approved budget and a \$24,923 (0.5 percent) increase relative to FY 2022 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 vessels. CWM is positively affected by its proximity to open water, age, and physical condition. Westrec's 54.1 percent net income margin for the FY 2024 proposed budget exceeds industry standards for net income margin. Although net income margin is anticipated to slightly decrease relative to the FY 2023 approved budget, the FY 2024 proposed figure represents a stark increase relative to the FY 2015 net income margin of 36.6 percent.

SUBJECT: APPROVAL OF FY 2023 ANNUAL BUDGET FOR WESTREC MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

Current Operator Compensation – On a monthly basis, Westrec deducts its four percent management fee as an operating expense from total revenues.

ENVIRONMENTAL ASSESSMENT:

The proposed action is the approval of the annual budget for operation of Cabrillo Way Marina by Westrec Marina Management, Inc., 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 2024 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 2022 actuals, the Harbor Department realized net receipts of \$4,552,701. Based upon the FY 2023 approved budget and the FY 2024 proposed budget, the Harbor Department anticipates respective net receipts of \$4,472,526 and \$4,577,624, respectively. 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 Actuals	FY 2023 Approved	FY 2024 Proposed
(A) Total Revenues	5,983,024	6,205,946	6,802,544	7,994,448	7,996,187	8,459,298
(B) Total Expenses	2,983,782	3,284,154	3,066,177	3,441,747	3,523,661	3,881,674
(C) Net Income (A - B)	\$2,999,242	\$2,921,792	\$3,736,367	\$4,552,701	\$4,472,526	\$4,577,624
<i>Net Income Growth %</i>	21.8%	(2.6%)	27.9%	21.8%	(1.8%)	2.3%
<i>Expense Ratio % (B / A)</i>	49.9%	52.9%	45.1%	43.1%	44.1%	45.9%
<i>Net Income Ratio % (C / A)</i>	50.1%	47.1%	54.9%	56.9%	55.9%	54.1%

As summarized above, FY 2024 Proposed Total Revenues are anticipated to grow at an average annual rate of 7.3 percent each year since FY 2019 primarily due to increased occupancy which has grown from 83.6 percent in FY 2022 to 85.9 percent in FY 2023. FY 2024 Proposed Total Expenses are expected to grow at an average annual rate of 5.6 percent each year since FY 2019 due to cost of living increases and higher operations and maintenance expenses arising from higher occupancy levels. Furthermore, since 2019, 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 2024 Proposed Net Income Ratio of 54.1 percent represents a 4 percentage point increase relative to the Net Income Ratio of 50.1 percent achieved in FY 2019.

DATE: MAY 24, 2023

PAGE 5 OF 5

SUBJECT: APPROVAL OF FY 2023 ANNUAL BUDGET FOR WESTREC
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 2024 Budget

FIS Approval: MB
CA Approval: SO

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