



Executive Director's

Report to the

Board of Harbor Commissioners

DATE: MAY 20, 2021

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF ANNUAL BUDGET COVERING FISCAL YEAR 2022 FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

SUMMARY:

Staff requests approval of the annual budget for Fiscal Year (FY) 2022 for operation of Cabrillo Way Marina (CWM) by Westrec Marina Management, Inc. (Westrec) under Agreement No. 13-3125 (Agreement). Westrec's proposed FY 2022 revenue of \$6,784,489 represents an increase of 4.0 percent from FY 2021 approved revenues of \$6,524,775. During FY 2020, wet slip occupancy increased to 573 (from 526 in FY 2019) which implied an occupancy rate of 82.8 percent, up from 76.0 percent reported in the previous year. The current 82.8 percent occupancy rate is consistent with the local market within the Port of Los Angeles marinas, which ranges from 64 – 98 percent occupancy. FY 2022 proposed total expenses of \$3,500,794 represent a 4.4 percent increase from the FY 2021 approved expenses of \$3,353,687 due to living wage adjustments, additional staffing needs, required dock maintenance and repair costs, and an increased need for landscaping and refuse collection.

FY 2022 proposed net income of \$3,283,695 is expected to represent an increase of 3.6 percent, from the FY 2021 approved net income of \$3,171,088 and a 12.4 percent increase over FY 2020 actual of \$2,921,792. The resulting FY 2022 proposed net profit margin of 48.4 percent is consistent with FY 2021 approved margin of 48.6 percent and higher than FY 2020 actual net profit margin of 47.1 percent. The COVID-19 pandemic has affected all marina operators and operations. Increased boater presence has led to increased operational expenses from staffing, refuse collection, pest control and other contracted services.

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 2022 under Agreement No. 13-3125; and
3. Adopt Resolution No. _____.

SUBJECT: APPROVAL OF FY 2022 ANNUAL BUDGET FOR WESTREC MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

DISCUSSION:

Proposed Action – Staff requests Board approval of CWM’s annual budget for FY 2022 (Transmittal No.1). An analysis of these future operating expenses and revenues was conducted, as well as a thorough review of past operating expenses and revenues. It was determined that the proposed annual budget is appropriate for CWM’s continued operations.

Background – The Agreement was approved by the Board at its meeting of June 6, 2013. Westrec manages CWM as a fee operator, while passing through all expenses and revenue to the Harbor Department. 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, 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.

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 2022 to be satisfactory. Westrec provided documents 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 2022 proposed budget submission, as well as a comparison to the FY 2020 actuals and FY 2021 approved budget figures for certain key revenue and expense categories.

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TABLE 1: COMPARISON OF FY 2021 PROPOSED BUDGET KEY FIGURES TO FY 2020 ACTUALS AND THE FY 2021 APPROVED BUDGET

In \$	FY 2020 Actuals	FY 2021 Approved	FY 2022 Proposed	\$ Variances - FY 2022 vs.		% Variances - FY 2022 vs.	
				FY 2020 Actual	FY 2021 Approved	FY 2020 Actuals	FY 2021 Approved
Wet Slip Rentals	4,634,212	4,937,478	5,170,929	536,717	233,451	11.6%	4.7%
Other Revenues	1,571,734	1,587,297	1,613,560	41,826	26,263	2.7%	1.7%
(A) Total Revenues	\$6,205,946	\$6,524,775	\$6,784,489	\$578,543	\$259,714	9.3%	4.0%
Payroll	654,984	744,157	766,482	111,498	22,325	17.0%	3.0%
Docks and related	175,064	165,000	236,700	61,636	71,700	35.2%	43.5%
Operations	910,752	924,000	961,500	50,748	37,500	5.6%	4.1%
Other Expenses	1,543,354	1,520,530	1,536,112	(7,242)	15,582	(0.5%)	1.0%
(B) Total Expenses	\$3,284,154	\$3,353,687	\$3,500,794	\$216,640	\$147,107	6.6%	4.4%
(C) Net Income (A - B)	\$2,921,792	\$3,171,088	\$3,283,695	\$361,903	\$112,607	12.4%	3.6%
Net Income % (C / A)	47.1%	48.6%	48.4%				

Total revenue within the FY 2022 proposed budget is expected to be \$6,784,489, which represents a \$259,714 (4.0 percent) increase relative to the FY 2021 approved budget and an increase of \$578,543 (9.3 percent) relative to FY 2020 actuals. FY 2022 revenue growth is expected to occur due to an increase in wet slip occupancy from 76 percent in 2019 occupied to 83 percent occupied in FY 2022, as well as an increase in guest slip rentals.

Total expenses within the FY 2022 proposed budget are expected to be \$3,500,794, which represents a \$147,107 (4.4 percent) increase relative to the FY 2021 approved budget and an increase of \$216,640 (6.6 percent) relative to FY 2020 actuals. The increase in total expenses from 2021 is primarily due to increased costs for payroll, slip maintenance and repair and operations expenses including security, gardening, janitorial and refuse collection.

Payroll expenses of \$766,482 have increased by \$22,325, an increase of 3.0 percent, due to cost of living increases. Docks and related expenses for FY 2022 are expected to be \$236,700, an increase of 43.5 percent, from FY 2021. Proper upkeep and maintenance of aging docks necessitates this increased budget expense. The budgeted cost includes modification, maintenance and repairs to dock systems as prescribed by Bellingham Marine, the dock service contractor that annually assesses dock systems and required maintenance tasks at CWM. Operations expenses of \$961,500 have increased by \$37,500, an increase of 4.1 percent, due to higher occupancy levels.

Net income within the FY 2022 proposed budget is expected to be \$3,283,695, which represents a \$112,607 (3.6 percent) increase relative to the FY 2021 approved budget and a \$361,903 (12.4 percent) decrease relative to FY 2020 actuals.

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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, high land-to-water ratio, and slip mix favoring larger slips. CWM is positively affected by its close proximity to open water, age, and physical condition.

Westrec's 48.4 percent net income margin for FY 2022 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 2022 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 2022 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 2020 actuals, the Harbor Department realized net receipts of \$2,921,792. Based upon the FY 2021 approved budget and the FY 2022 proposed budget, the Harbor Department anticipates respective net receipts of \$3,171,088 and \$3,283,695. Historical and projected financial information has been summarized below:

SUBJECT: APPROVAL OF FY 2022 ANNUAL BUDGET FOR WESTREC MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

TABLE 2: HISTORICAL AND PROJECTED FINANCIAL SUMMARY

In \$	FY 2018 Actuals	FY 2019 Actuals	FY 2020 Actuals	FY 2021 Approved	FY 2022 Proposed
(A) Total Revenues	5,427,174	5,983,024	6,205,946	6,524,775	6,784,489
(B) Total Expenses	2,964,271	2,983,782	3,284,154	3,353,687	3,500,794
(C) Net Income (A - B)	\$2,462,903	\$2,999,242	\$2,921,792	\$3,171,088	\$3,283,695
Income Growth %	44.6%	21.8%	-2.6%	8.5%	3.6%
Expense % (B / A)	54.6%	49.9%	52.9%	51.4%	51.6%
Net Income % (C / A)	45.4%	50.1%	47.1%	48.6%	48.4%

As summarized above, FY 2022 Proposed Total Revenues have grown at an average annual rate of 5.7 percent relative to FY 2018 Actuals primarily due to increased occupancy which has grown from 67.6 percent in FY 2018 to 82.8 percent in FY 2020. On the other hand, FY 2022 Proposed Total Expenses have grown at an average annual rate of 4.2 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 2022 Proposed Net Income Ratio of 48.4 percent represents a 3.0 percent increase relative to the Net Income Ratio of 45.4 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 2022 Budget

FIS Approval: *MB*
CA Approval: *JS*

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