



Executive Director's
Report to the

Board of Harbor Commissioners

DATE: MAY 6, 2020

FROM: WATERFRONT & COMMERCIAL REAL ESTATE

SUBJECT: RESOLUTION NO. _____ - APPROVAL OF ANNUAL BUDGET COVERING FISCAL YEAR 2021 FOR WESTREC MARINA MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

SUMMARY:

Staff requests approval of the annual budget for Fiscal Year (FY) 2021 for operations of Cabrillo Way Marina (CWM) by Westrec Marina Management, Inc. under Agreement No. 13-3125 (Agreement). Westrec's proposed FY 2021 revenue of \$6,527,055 is consistent with a 0.5 percent increase from FY 2020 approved revenues of \$6,496,578. During FY 2019, wet slip occupancy increased to 526 from 468 in FY 2018 which implied an occupancy rate of 76.0 percent. Although this increase was less than the 577 projected, the 76.0 percent occupancy rate is consistent with the local market within the Port of Los Angeles marinas, which ranges from 64 – 98 percent occupancy. FY 2021 proposed total expenses of \$3,353,687 represent a 9.9 percent decrease from the adjusted FY 2020 approved expenses of \$3,721,270 due to a majority of periodic maintenance and repairs being made during FY 2020, including lighting and materials for slip maintenance.

FY 2021 proposed net income of \$3,173,368 is expected to represent an increase of 14.3 percent, or \$398,060, from the adjusted FY 2020 approved net income of \$2,775,308. The resulting FY 2021 proposed net profit margin of 48.6 percent represents a 5.9 percent increase relative to the adjusted FY 2020 approved margin of 42.7 percent due to a combination of increased projected revenues and lower projected expenses.

With the recent COVID-19 pandemic affecting all marina operators and operations, the City of Los Angeles Harbor Department (Harbor Department) will continue to monitor the situation. If the need arises, staff may make mid-year adjustments to the FY 2021 Westrec budget depending on an evolving situation that may affect budget items that cannot be quantified at this time.

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 2021 under Agreement No. 13-3125; and
3. Adopt Resolution No. _____.

SUBJECT: APPROVAL OF FY 2021 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 2021 (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 2021 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 2021 proposed budget submission as well as a comparison to the FY 2019 actuals and FY 2020 adjusted approved budget figures for certain key revenue and expense categories.

SUBJECT: APPROVAL OF FY 2021 ANNUAL BUDGET FOR WESTREC MANAGEMENT, INC. UNDER AGREEMENT NO. 13-3125

TABLE 1: COMPARISON OF FY 2021 PROPOSED BUDGET KEY FIGURES TO FY 2019 ACTUALS AND THE FY 2020 ADJUSTED APPROVED BUDGET

In \$	FY 2019 Actuals	FY 2020 Adjusted Approved	FY 2021 Proposed	\$ Variances - FY 2021 vs.		% Variances - FY 2021 vs.	
				FY 2019 Actuals	FY 2020 Adjusted Approved	FY 2019 Actuals	FY 2020 Adjusted Approved
Wet Slip Rentals	4,451,604	4,937,478	4,939,758	488,154	2,280	11.0%	0.0%
Other Revenues	1,531,420	1,559,100	1,587,297	55,877	28,197	3.6%	1.8%
(A) Total Revenues	5,983,024	6,496,578	6,527,055	544,031	30,477	9.1%	0.5%
Payroll	633,940	765,637	744,157	110,217	(21,480)	17.4%	(2.8%)
Sub-contracting	570,343	577,850	540,900	(29,443)	(36,950)	(5.2%)	(6.4%)
*Office Supplies	218,189	140,000	160,950	(57,239)	20,950	(26.2%)	15.0%
Security	569,737	690,000	640,000	70,263	(50,000)	12.3%	(7.2%)
Management Fee	239,039	259,863	261,274	22,235	1,411	9.3%	0.5%
Other Expenses	752,534	1,287,920	1,006,406	253,872	(281,514)	33.7%	(21.9%)
*(B) Total Expenses	2,983,782	3,721,270	3,353,687	369,905	(367,583)	12.4%	(9.9%)
*(C) Net Income (A - B)	2,999,242	2,775,308	3,173,368	174,126	398,060	5.8%	14.3%
Net Income % (C / A)	50.1%	42.7%	48.6%				

* The FY 2020 Approved Office Supplies budget was adjusted from \$32,000 to \$140,000 due to omitted expenses for credit card fees.

Total revenue within the FY 2021 proposed budget is expected to be \$6,527,055, which represents a \$30,477 (0.5 percent) increase relative to the FY 2020 adjusted approved budget and an increase of \$544,031 (9.1 percent) relative to FY 2019 actuals. FY 2021 revenue growth is expected to be lower relative to prior years due to waning demand for larger vessel slips. At the time the marina was designed in 2006, market demand trends favored larger boats, and the final design included 172 larger vessel slips (ranging from 60'-130'). The average boater today purchases vessels in the 40'-45' range. Despite continued efforts to market the marina and expectations in the FY 2020 budget that occupancy for larger slips would increase with an improved economy, demand for larger slips in the 60' to 130' range has not improved in the past year.

Total expenses within the FY 2021 proposed budget are expected to be \$3,353,687, which represents a \$367,583 (9.9 percent) decrease relative to the FY 2020 adjusted approved budget and an increase of \$369,905 (12.4 percent) relative to FY 2019 actuals. The decrease in total expenses from 2020 is primarily due to decreased costs of lighting, landscaping, and slip maintenance. During Phase II of the Solar Panel Project, 24 light posts were removed bringing lighting costs down by 55 percent. Additionally, some landscaping areas were removed or replaced to be maintained at a lower cost. Lastly, several expenses related to dock and grounds maintenance were incurred on a one-time basis in FY 2020 and are not expected to recur going forward. To note, total FY 2020 adjusted approved expenses represented over a \$700,000 increase relative to FY 2019 actual expenses.

Adjustment to Westrec's 2020 Approved Office Supplies Item – The Office Supplies category covers basic office supplies, computer maintenance, dues/subscriptions, recruiting, credit card processing fees, uniforms, foul weather gear, two-way radio, etc. In the original 2020 approved budget for office supplies, Westrec inadvertently omitted credit card fees of \$108,000 (2.5% fee) for this item. Therefore, in order to provide a more meaningful comparison to the FY 2021 proposed budget, the FY 2020 approved budget for office supplies was increased by \$108,000.

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Net income within the FY 2021 proposed budget is expected to be \$3,173,368, which represents a \$398,060 (14.3 percent) increase relative to the FY 2020 adjusted approved budget and a \$174,126 (5.8 percent) increase relative to FY 2019 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, 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 51.4 percent expense ratio and 48.6 percent net income margin for FY 2021 proposed budget compare favorably to the 56 percent expense ratio and 44 percent net income margin per industry standard for public and privately-owned marinas.

Current Operator Compensation – On a monthly basis, Westrec deducts its 4 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 2021 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 2021 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 2019 actuals, the Harbor Department realized net receipts of \$2,999,242. Based upon the adjusted FY 2020 approved budget and the FY 2021 proposed budget, the Harbor Department anticipates respective net receipts of \$2,775,308 and \$3,173,368. Historical and projected financial information has been summarized below:

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TABLE 2: HISTORICAL AND PROJECTED FINANCIAL SUMMARY

In \$	FY 2017 Actuals	FY 2018 Actuals	FY 2019 Actuals	FY 2020 Adj. Approved	FY 2021 Proposed
(A) Total Revenues	4,667,280	5,427,174	5,983,024	6,496,578	6,527,055
* (B) Total Expenses	2,963,485	2,964,271	2,983,782	3,721,270	\$3,353,687
* (C) Net Income (A - B)	1,703,795	2,462,903	2,999,242	2,775,308	3,173,368
* Income Growth %	17.1%	44.6%	21.8%	(7.5%)	14.3%
*Expense % (B / A)	63.5%	54.6%	49.9%	57.3%	51.4%
*Net Income % (C / A)	36.5%	45.4%	50.1%	42.7%	48.6%

* The FY 2020 Approved Office Supplies budget was adjusted from \$32,000 to \$140,000 due to omitted expenses for credit card fees.

The chart above indicates an upward trend in revenue over the past four years.

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 2021 Budget

FIS Approval: 
CA Approval: 




MICHAEL J. GALVIN
Director of Waterfront & Commercial Real Estate



MICHAEL DiBERNARDO
Deputy Executive Director

APPROVED:



EUGENE D. SEROKA
Executive Director

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