

A G E N D A I T E M

BUSINESS OF THE CITY COUNCIL
City of Des Moines, WA

SUBJECT: Update on the Marina’s Financial Sustainability Plan

FOR AGENDA OF: May 14, 2015

DEPT. OF ORIGIN: Marina

ATTACHMENTS:

DATE SUBMITTED: May 8, 2015

- Marina Sustainability Plan Power Point
- Marina Financial Plan – Cash
- Marina Financial Plan – Debt
- Marina Map

CLEARANCES:

- Legal _____
- Finance DM
- Marina DM
- Parks, Recreation & Senior Services N/A
- Planning, Building & Public Works N/A
- Police N/A
- Courts N/A

APPROVED BY CITY MANAGER
FOR SUBMITTAL: 

Purpose and Recommendation

The purpose of this agenda item is to up-date the Council on the staff’s efforts to develop the plan to ensure the long-term financial sustainability of the Marina.

Suggested Motion: (None Required – Information only)

Background

At the Council’s goal setting retreat last November staff was directed to develop a plan to ensure the long-term financial sustainability of the Marina. The Council’s directive was a response to three years of operating losses in the Marina enterprise fund and the resulting steep decline in the Marina’s reserves.

The recreational boating industry in the Puget Sound was very stable for the first twenty-five years of the Marina’s existence, but beginning in the 1990’s, several factors started to destabilize the industry, especially the market for boat moorage. The decline in salmon fishing, the decline in young people participating in recreational boating and the largest recession in decades all factored into a significant decrease in recreational boating nationwide and here in the Puget Sound region. These factors

effectively made it impossible for the City to carry out the Marina's capital improvement program as outlined in the Des Moines Marina Comprehensive Master Plan adopted in 2002 and updated in 2007.

Discussion

At a Council meeting on January 22, 2015 the staff updated the Council on the Marina Sustainability Plan. At that meeting the staff told the Council that they had identified five major elements that would need to be developed for a comprehensive plan. The major elements are:

- An update of the Marina's revenue, expense and debt service model that was first developed in 2002 when the first of the outstanding bonds were issued. The model was up-dated again in 2008, when the second bond issue went out, but several of the assumptions made about revenue growth, specifically moorage revenue were too optimistic in light of the impacts of the recession.
- A traditional Strength, Weaknesses, Opportunities and Threats, (SWOT) analysis that will be the basis for determining the competitive advantages the Marina has in the market for moorage on the Sound. A diverse group of Marina tenants, yacht club members and non-boating citizens will participate in the exercise.
- The staff will analyze the current capital improvement plan to see what changes have to be made in the schedule of needed projects in order to ensure that the improvements that are the most critical or will generate additional revenue will be done first.
- Using information from SWOT analysis and the financial model the staff will develop options for restarting the capital improvement plan. As the options are developed the staff will include a discussion of the current level of debt and the ability of the Marina fund to carry more debt, if needed.
- As options are developed, the staff will be aware of and try to address the main challenges that face the entire industry, i.e., aging of the active boating community, competition from other activities, affordability, etc.

To date, the Marina's financial model has been updated, the SWOT analysis has been completed and the list of capital improvement projects has been updated for costs and reprioritized. A presentation of the financial model with a cash focus was presented to the Municipal Facilities Committee.

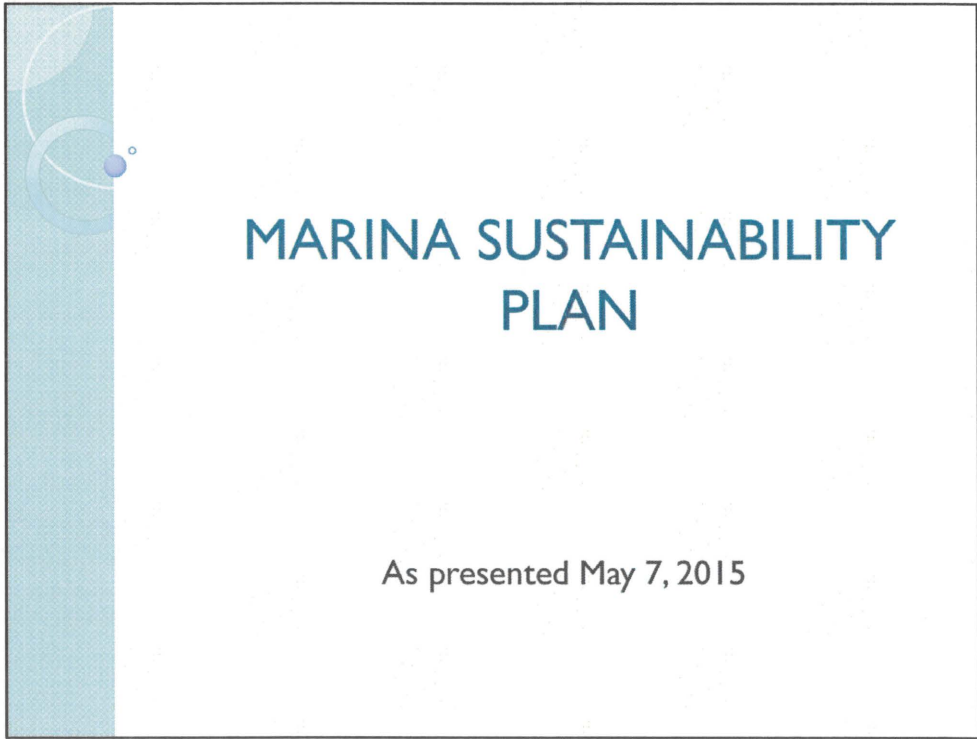
This presentation takes a new approach by separating the Marina into four distinct zones and analyzing the challenges/options for each zone. The presentation will then turn to short and long term financial effects on the narrowly defined Marina's financial plan using two different approaches: capital replacement using cash and capital replacement using debt.

Financial Impact

All of the options that are discussed and/or recommended in the report will have significant financial impacts and the presentation will include a discussion of those impacts.

Conclusion

N/A



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OVERVIEW

- Marina sustainability is best viewed in context of the larger Water Front Master Plan
- Water Front Master Plan contains four activity zones.
- Challenges and opportunities are unique to each zone and therefore each zone will have its own sustainability plan.

Overviews and a new way to view the water front will be discussed. The first point tonight is to structure the Marina discussion a little differently than we have in the past. What has been previously referred to as the “Marina Sustainability Plan” will be changed to the “Water Front Master Plan” tonight. This is important because it opens up our thinking to see opportunities and challenges differently.

The water front contains more than just a Marina. It contains several activities which have their own set of costs and related revenues sources (or lack thereof). Costs are currently lumped together which makes analysis a challenge. Accounting will be changed to track revenues and costs by individual zones to provide better data for future decision making. For the short term, higher level estimates will be used.

WATER FRONT MASTER PLAN

DOWNTOWN:

- Marina Operations Zone 1 (Blue shape)
- Economic Development Zone 2 (Green shape)
- Public Benefit Zone 3 (Orange shape)

REDONDO:

- Public Benefit Zone 4

These zones define the basic financial modeling definitions and accounting design: i.e. where cash is collected and stored (fund balance) as well as where revenues and expenses are recorded. These are the building blocks of financial planning for each of the zones. These zones will help define who keeps which money and for what purpose.

DOWN TOWN WATER FRONT MAP



MARINA OPERATIONS - Zone 1



- Includes such assets as docks, tenant restrooms, tenant parking, office building, maint shop, etc.
- Includes customer revenues such as moorage, fuel, utilities, retail sales, launch fees, etc.
- Includes operational costs such as asset maintenance, customer billing, administration, service delivery, etc.
- Includes Dry Sheds rentals (initially).

Marina operations are considered its own business enterprise. Revenues from customers are used to maintain operations as well as repair and replace assets. It currently has outstanding debt that won't be paid off until 2028. Some debt will pay off in 2022. A business model will be created to reflect these factors and address the capital replacement needs of the Marina operations in Zone 1.

ECONOMIC DEVELOPMENT - Zone 2


- Includes such current assets as boat yard, general parking lots up to Zone 3.
- Includes current development revenues such as building lease revenue.
- Includes operational costs such as asset maintenance, etc.

This zone has tremendous future opportunity for the city. The goal of this zone is to cover its own operating and capital costs, foster private enterprises to generate property, B&O and sales tax for the general fund and provide activities to make the water front a destination location.

The next step in developing this zone is to expand the boat yard allowing the existing tenant to grow his business. Increasing the yard by 6,000 sq ft will cost about \$12,000 and will be paid by cash and recovered from a lease rent increase. A more extensive building and yard expansion as well as purchase of a new travel lift will require additional debt and could cost as much as \$735,000 in construction costs. This type of investment will require new debt. More considerations of expansion options and costs is warranted. The lease should reflect the greater value to the private business and be set to at least cover the cost of the investment. The city cannot afford to subsidize private businesses. The risk to the city is if we incur the debt and the business goes out of business, the city is left making the debt payment without a revenue source.

Future planning steps are to explore opportunities for private development, private-public partnerships, and/or such things as development of Public Development Authority. The city does not have the bonding capacity or revenue base to aid in investment so other sources are needed. Direct revenues created in this zone need to be maintained for the operations, capital replacement and debt service for this zone.

PUBLIC BENEFIT – Zone 3



- Includes such assets as the fishing pier, public restrooms, the north parking lot, entrance/parking for the Beach Park, etc.
- There are no current revenue sources generated by this zone.
- Includes operational costs such as asset repairs, restroom cleaning /repairs, and event support.

This zone faces considerable fiscal challenge as it has assets but no specific source of revenue with which to maintain, improve or replace those assets. This zone is not necessary to the continuity or functioning of the Marina operations. The major challenge here is the replacement of the bulk heads around the parking lot and the front of the Beach Park and on-going maintenance of the pier.

This zone is for public benefit and it is reasonable to expect it to be paid for with public funds. Accordingly, the \$5 million dollars or so that it will take to replace the bulk heads would come from public sources. This may take the form of grants as well as debt bonding. As the city does not have the financial capacity for additional bonded debt with current revenue levels, then the debt request would be put to the voters for approval of a special property tax levy. If the public does not want to support maintaining access to the water front area, then they city would be left with a few choices: 1) do nothing until the bulk heads fail and then close access or 2) transfer ownership to someone that does have resources to replace the bulkheads. In addition to the Economic Development Zone the desired level of parking availability in this zone is also an issue to be studied.

In addition to asset replacement issues, there is the on-going cost of maintaining the pier, parking lot, public restrooms and labor used to facilitate special events. Debt financing is not an appropriate source to pay for these costs and so a different revenue source is needed. Paid parking is one possible source. A public access pass may be

another idea (residents could have one rate; nonresidents could have another). Keep in mind it would take additional staff time, software, etc. to create and administer an access pass system.

PUBLIC BENEFIT – Zone 4

- Includes such assets as, Boardwalk, rental buildings, boat launch, parking lot, public restroom, etc.
- Parking fees are the single revenue source.
- Includes operational costs such as asset repairs, restroom cleaning /repairs, and event support.

A sustainable business plan for this area will be developed recognizing the limited revenue from this zone will likely not be sufficient to pay for capital replacement or major repair costs of the Boardwalk; but the goal would be otherwise self sustaining.

MARINA FINANCIAL PLAN – ZONE 1 (Mostly) - Assumptions

- Still combines all zones operating revenues and expenditures. Other zones will be separated out in Next Steps.
- Includes only Zone 1 capital and debt.
- End Balance only reflects operating reserve. Debt reserve is separate (accounted for but not shown). Target Balances in green.
- 2022 and 2027 are next debt issue opportunities.
- Revenue and Expense escalation assumptions shown in orange.

MARINA FINANCIAL PLAN – ZONE 1 (Mostly) - Observations

- Near term (<2022) minor capital paid with cash.
- High priority capital paid with debt in 2022. Some projects are related/associated to others. (e.g. storm water & J dock transformer move).
- Long life docks paid with cash over time. One dock every 4 years or so.
- If no new debt in 2027 then Debt Reserve cash \$500K can be repurposed to annual debt payment/capital in 2027.
- 2022 Debt is interest only payments until 2028 (not normal).

Purchased with Cash

	Replace Year	Age at Replace	Replace Amt
Replace M Dock - 1970	2030	60	1,750,000
Replace N Dock - 1970	2033	63	1,800,000
Replace L Dock - 1970	2035	65	1,800,000
Replace K Dock - 1970	2037	67	1,800,000
Replace I Dock - 1970	2040	70	1,825,000
Replace H Dock - 1970	2042	72	1,850,000
Replace A Dock - 2002	2043	41	1,850,000
Replace B Dock - 2003	2045	42	1,950,000
Replace C Dock - 2004	2047	43	1,950,000
Replace D Dock - 2005	2049	44	2,000,000
Replace M Dock - 1970	2030	60	1,750,000

Purchased with Debt

	Replace	Age at	Replace
Dock	Year	Replace	Cost
Replace M Dock - 1970	2027	57	1,750,000
Replace N Dock - 1970	2027	57	1,750,000
Replace L Dock - 1970	2027	57	1,750,000
Replace K Dock - 1970	2030	60	1,819,048
Replace I Dock - 1970	2030	60	1,800,000
Replace H Dock - 1970	2030	60	1,800,000
Replace A Dock - 2002	2042	40	1,826,250
Replace B Dock - 2003	2042	39	1,800,000
Replace C Dock - 2004	2042	38	1,800,000
Replace D Dock - 2005	2042	37	1,800,000

The Beginning (not the End) – Next Steps

- Zone 1 – Revise Marina financial plan to remove other zone revenues/expenses and re-evaluate marina plan.
- Zone 2 – Create Economic Development plan. New resources ideas to explore may include such things as Port partnership, new city debt, formation of Public Facility District.
- Zone 3 – Create Public Access financial plan. New resource ideas to explore may include such things as Voter Approved bond issue (new property taxes), Port partnership, parking fees. Creation of parking structure to be considered.
- Zone 4 – Create Redondo financial plan. New resource ideas to explore are additional building rent and increases to parking and/or launching fees. Possible cost reductions may include labor reduction of summer staffing; reduction in parking tax %.

In conclusion, tough choices need to be made. By breaking the larger issue into smaller, distinct activities and then matching revenue sources to those individual activity costs, new approaches become possible to solve old problems.

MARINA FINANCIAL PLAN (CASH)

Under cash model last dock paid by 2049; under debt last 4 debt issued 2047.

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	Actual 2014	Revised 2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	
OPERATIONS																																
Revenues	4,242,258	4,229,218	4,301,116	4,387,140	4,474,882	4,586,754	4,701,424	4,818,959	4,959,436	5,097,921	5,224,496	5,349,233	5,487,216	5,623,520	5,763,234	5,906,442	6,053,231	6,203,686	6,357,905	6,515,977	6,678,004	6,844,081	7,014,309	7,188,791	7,367,635	7,550,955	7,738,853	7,931,451	8,128,866	8,331,215	8,538,624	
Operating Expenditures	(3,378,468)	(3,312,222)	(3,436,493)	(3,513,630)	(3,596,122)	(3,688,014)	(3,782,742)	(3,880,402)	(3,981,100)	(4,084,934)	(4,192,019)	(4,302,474)	(4,416,418)	(4,533,975)	(4,655,282)	(4,780,466)	(4,909,661)	(5,043,017)	(5,180,691)	(5,322,843)	(5,469,628)	(5,621,211)	(5,777,786)	(5,939,521)	(6,106,611)	(6,279,260)	(6,457,673)	(6,642,063)	(6,832,663)	(7,029,699)	(7,233,413)	
Capital Expenditures	-	-	(100,000)	(60,000)	(60,000)	(60,000)	(60,000)	(105,000)	(167,634)	(35,000)	-	-	-	(50,000)	(1,084,810)	-	(1,750,000)	-	-	(1,800,000)	-	-	(1,800,000)	-	(1,800,000)	-	(1,825,000)	(1,850,000)	-	(1,850,000)	-	
Debt Expenditures	(821,416)	(889,535)	(888,204)	(888,467)	(884,001)	(891,092)	(885,176)	(892,863)	(899,373)	(909,334)	(921,474)	(935,675)	(950,216)	(965,232)	(980,767)	(996,302)	(1,011,837)	(1,027,372)	(1,042,907)	(1,058,442)	(1,073,977)	(1,089,512)	(1,105,047)	(1,120,582)	(1,136,117)	(1,151,652)	(1,167,187)	(1,182,722)	(1,198,257)	(1,213,792)		
Net Annual Activity	863,790	847,001	764,623	773,510	778,760	785,678	793,682	803,557	818,333	833,111	847,883	862,758	877,598	892,433	907,268	922,103	936,928	951,753	966,578	981,403	996,228	1,011,053	1,025,878	1,040,703	1,055,528	1,070,353	1,085,178	1,100,003	1,114,828	1,129,653		
End Balance	728,307	755,768	604,726	529,769	464,528	412,176	385,682	326,376	187,705	328,201	521,067	732,151	966,969	1,170,722	890,392	1,462,252	303,152	913,736	1,543,607	387,544	1,036,623	1,702,628	590,133	1,293,064	203,063	929,742	1,663,859	580,789	39,904	1,341,420	796,631	
Target (25 days exp -7%)	293,992	294,123	302,729	308,147	313,609	320,537	326,754	334,129	345,133	344,570	352,214	359,670	367,668	375,884	347,113	373,421	382,363	391,517	400,962	411,043	422,025	432,465	442,876	454,010	466,035	477,699	490,332	503,266	477,383	492,079	506,339	
Target (60 days exp -16.67%)	690,392	690,700	710,909	723,632	736,459	752,730	767,329	784,646	810,489	809,166	827,117	844,627	863,408	882,701	815,138	876,918	897,917	919,414	941,595	965,267	991,056	1,015,574	1,040,023	1,066,169	1,094,406	1,121,799	1,151,463	1,181,839	1,212,055	1,242,271	1,272,487	
CAPITAL																																
Revenues	385,981	-	-	-	-	-	-	-	4,971,726	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transfers In from O&M	-	-	100,000	60,000	60,000	60,000	60,000	105,000	167,634	35,000	-	-	-	50,000	1,084,810	-	1,750,000	-	-	1,800,000	-	1,800,000	-	1,800,000	-	1,800,000	-	1,825,000	1,850,000	-	1,850,000	
Expenses	-	(385,981)	(100,000)	(60,000)	(60,000)	(60,000)	(60,000)	(105,000)	(5,139,360)	(35,000)	-	-	-	(50,000)	(1,084,810)	-	(1,750,000)	-	-	(1,800,000)	-	(1,800,000)	-	(1,800,000)	-	(1,800,000)	-	(1,825,000)	(1,850,000)	-	(1,850,000)	
End Balance	385,981	-	-	-	-	-	-	-	4,971,726	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
DEBT SERVICE																																
Transfers In from O&M	-	889,535	888,204	888,467	884,001	891,092	885,176	892,863	949,373	837,491	839,611	835,675	835,980	835,792	817,250	554,116	552,670	550,085	547,343	549,197	559,297	556,865	549,018	546,339	551,025	545,016	547,063	547,458	503,500	-	-	
Expenses	-	(821,216)	(819,828)	(820,516)	(815,416)	(823,016)	(816,916)	(819,116)	(884,966)	(772,880)	(775,330)	(771,366)	(771,710)	(771,240)	(774,618)	(511,588)	(510,338)	(507,988)	(505,163)	(506,163)	(516,413)	(514,613)	(507,025)	(503,913)	(509,113)	(502,938)	(504,938)	(505,500)	(503,500)	-	-	
End Balance	96,616	68,319	68,376	67,951	68,585	68,076	68,260	73,747	64,407	64,611	64,281	64,309	64,270	64,552	42,632	42,528	42,332	42,097	42,180	43,034	42,884	42,252	41,993	42,426	41,912	42,078	42,125	41,958	-	-		
DEBT RESERVE																																
Bond Proceeds	-	-	-	-	-	-	-	-	213,274	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transfers In from O&M	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(513,778)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
End Balance	816,916	816,916	816,916	816,916	816,916	816,916	816,916	816,916	1,030,190	1,030,190	1,030,190	1,030,190	1,030,190	1,030,190	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	516,412	
COMBINED BAL	2,027,820	1,641,003	1,490,018	1,414,636	1,350,029	1,297,168	1,270,858	1,217,039	1,282,302	1,423,002	1,615,538	1,826,650	2,061,429	2,265,464	1,449,436	2,021,192	861,896	1,472,245	2,102,199	946,990	1,595,919	2,261,292	1,148,538	1,851,902	761,387	1,488,232	2,222,396	1,139,159	39,904	1,341,420	796,631	
Gen'l Revenue Rate Escalator			101.7%	102.0%	102.0%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%	102.5%		
O&M REVENUE DETAIL																																
New Paid Parking Rev (net of tax)	-	-	-	-	-	-	-	-	20,000	35,000	35,000	30,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	35,000	
Reduction in Dry Shed Rent	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Revenues	4,242,258	4,229,218	4,301,116	4,387,140	4,474,882	4,586,754	4,701,424	4,818,959	4,959,436	5,097,921	5,224,496	5,349,233	5,487,216	5,623,520	5,763,234	5,906,442	6,053,231	6,203,686	6,357,905	6,515,977	6,678,004	6,844,081	7,014,309	7,188,791	7,367,635	7,550,955	7,738,853	7,931,451	8,128,866	8,331,215	8,538,624	
Labor increase rates			103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	103.5%	
Benefit increase rates			105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	105.0%	
Supplies/Service increase rates			101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	101.0%	
Gen'l Fund Admin Escalator est			102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	102.0%	
O&M EXPENDITURE DETAIL																																
Total Expenditures	3,378,468	3,312,222	3,436,493	3,513,630	3,596,122	3,688,014	3,782,742	3,880,402	3,981,100	4,084,934	4,192,019	4,302,474	4,416,418	4,533,975	4,655,282	4,780,466	4,909,661	5,043,017	5,180,691	5,322,843	5,469,628	5,621,211	5,777,786	5,939,521	6,106,611	6,279,260	6,457,673	6,642,063	6,832,663	7,029,699	7,233,413	
O&M Transfers to Capital	-	-	100,000	60,000	60,000	60,000	60,000	105,000	167,634	35,000	-	-	-	50,000	1,084,810	-	1,750,000	-	-	1,800,000	-	1,800,000	-	1,800,000	-	1,800,000	-	1,825,000	1,850,000	-	1,850,000	
O&M Transfers to Debt Service	821,416	889,535	888,204	888,467	884,001	891,092	885,176	892,863	949,373	837,491	839,611	835,675	835,980	835,792	817,250	554,116	552,670	550,085	547,343	549,197	559,297	556,865	549,018	546,339	551,025	545,016	547,063	547,458	503,500	-	-	
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