



CITY OF LONG BEACH

DEPARTMENT OF PARKS, RECREATION AND MARINE

MARINE BUREAU

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July 12, 2018

**COMMISSIONERS
MARINE ADVISORY COMMISSION**
City of Long Beach
California

SUBJECT: Recommendation to Receive and File the Fiscal Year 2017, Marina Revenue Bonds Series 2015 Annual Report/Information to Investors and Fitch Rating Report

DISCUSSION

In accordance with Appendix C, Section 4 of the Marina Revenue Bonds, Series 2015 Official Statement, the Marine Bureau is required to submit the following information at the close of each fiscal year:

- Table 3 Slip Sizes and Current Rates
- Table 4 Total Slip Revenue
- Table 5 Total Rental and Concession Revenue
- Table 10 Historical Occupancy Rate by Slip Size
- Table 11 Length of Waiting List
- Table 14 Projection of Revenues, Expenses, Debt Service and Debt coverage

As required by the "Rate Covenant" section of the Official Statement, the City covenants to budget in a manner that fixes, prescribes, and revises rates and charges for the Marina System once for each Fiscal Year which are sufficient to yield, net revenues which are at least equal to one hundred twenty-five (125% / 1.25) of the total debt service payments on the bonds on an annual basis. At the end of Fiscal Year 2017, the Long Beach Marina System achieved a ratio of:

Marina Fund	Actuals FY 2017
Net Revenues	\$7,993,447
Total Debt Service	\$5,633,963
Debt Service Coverage:	1.42

On February 2018, Fitch reaffirmed the City's "BBB" ratings. Press release attached.

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It is recommended that the Marine Advisory Commission receive and file the Fiscal Year 2017, Marina Revenue Bonds Series 2015 Annual Report/Information to Investors and Fitch Rating Report.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Elvira Hallinan", with a stylized, flowing script.

Elvira Hallinan
Manager, Marinas and Beaches

Attachments (7)

TABLE 3
City of Long Beach - Marine Bureau

As of: October 1, 2018

Slip Size in Feet	Monthly Rate (\$)
15	\$148.08
20	\$196.48
25	\$300.11
30	\$441.93
35	\$563.23
40	\$698.28
45	\$822.41
50	\$941.06
55	\$1,110.18
60	\$1,211.14
65	\$1,359.79
70	\$1,507.89
75	\$1,670.76
80	\$1,833.03
85	\$2,008.93
90	\$2,184.88
95	\$2,374.40
100	\$2,563.98
105	\$2,767.19
110	\$2,970.47
115	\$3,187.30
120	\$3,404.13

TABLE 4
City of Long Beach - Marine Bureau
Total Slip Revenue
Fiscal Years 2013- 2017

<i>Fiscal Year Ending 9/30</i>	2017	2016	2015	2014	2013
Marina					
Alamitos Bay	\$ 8,617,696	\$ 7,735,726	\$ 7,695,523	\$ 8,569,541	\$ 7,767,353
Shoreline	10,916,306	10,105,304	10,050,871	10,283,591	10,224,341
Rainbow	703,203	605,188	586,755	575,704	601,515
Total	\$ 20,237,205	\$ 18,446,219	\$ 18,333,149	\$ 19,428,836	\$ 18,593,209

TABLE 5
City of Long Beach - Marine Bureau
Total Rental and Concession Revenue
Fiscal Years 2013- 2017

<i>Fiscal Year Ending 9/30</i>	2017	2016	2015	2014	2013
Source					
Rentals/Concessions	\$ 1,455,531	\$ 1,593,770	\$ 1,381,037	\$ 1,401,821	\$ 1,210,491
Miscellaneous Revenue	523,876	441,996	456,351	348,357	364,924
Total	\$ 1,979,407	\$ 2,035,766	\$ 1,837,388	\$ 1,750,178	\$ 1,575,415

TABLE 10
Long Beach Marine Bureau
Historical Occupancy Rate by Slip Size
Fiscal Years 2008- 2017

<i>Slip Size (in feet)</i>									
Year	20	25	30	35	40	45	50	55+	Total
2017	83%	77%	92%	89%	87%	89%	94%	97%	88%
2016	100%	100%	97%	97%	88%	93%	93%	98%	96%
2015	100%	100%	95%	95%	95%	97%	96%	99%	97%
2014	100%	90%	87%	94%	95%	89%	100%	99%	94%
2013	100%	94%	96%	99%	100%	99%	100%	100%	99%
2012	100%	100%	100%	99%	100%	100%	100%	100%	100%
2011	96%	100%	97%	92%	93%	100%	92%	100%	96%
2010	100%	99%	99%	100%	99%	94%	97%	97%	98%
2009	100%	97%	100%	100%	100%	100%	100%	100%	100%
2008	100%	100%	100%	98%	100%	99%	100%	100%	100%
Average	98%	96%	96%	96%	96%	96%	97%	99%	97%

NOTE

2015, 2016 and 2017 reflect slips available for rent during the rebuild. Therefore, when a dock is under construction, the slips are unavailable and therefore not part of the slip count utilized to determine occupancy.

During 2017, as we completed Basin 7, Basin 2 and Basin 3 the following slips were added and are reflected in the slip count for the occupancy rate. Added: 94, 20-foot slips; 187, 25-foot slips; and 35, 30-foot slips. As we added 45-foot slips to Alamitos Bay, Shoreline customers requested transfers and City has launched a marketing campaign to fill the newly available slips at Shoreline.

TABLE 11
Long Beach Marine Bureau
Length of Waiting List by Slip Size
Fiscal Years 2008- 2017

<i>Slip Size (in feet)</i>										
Year	15	20	25	30	35	40	45	50	55+	Total
2017	3	58	51	4	6	5	5	12	37	181
2016	10	65	65	14	18	18	6	12	30	238
2015	N/A	52	40	74	46	36	8	9	26	291
2014	N/A	35	4	5	7	2	1	5	11	70
2013	N/A	21	9	0	2	10	11	18	42	113
2012	N/A	34	25	15	29	56	26	65	74	324
2011	N/A	21	26	24	39	57	32	60	64	323
2010	N/A	10	22	8	30	17	6	48	70	211
2009	N/A	28	49	19	26	32	54	44	89	341
2008	N/A	25	56	49	60	66	83	64	101	504
Average	7	35	35	21	26	30	23	34	54	260

TABLE 14

Long Beach Marine Bureau

Projection of Revenues, Expenses, Debt Service, and Debt Service Coverages
Fiscal Years 2017- 2021

<i>Fiscal Year Ending 9/30</i>	2017	2018	2019	2020	2021
GROSS REVENUES ⁽¹⁾					
Slip Revenue					
Alamitos Bay Marina ⁽²⁾	\$8,617,696	\$10,341,235	\$10,548,060	\$10,759,021	\$12,358,734
Shoreline Marina	10,916,306	11,134,632	11,357,325	11,584,471	13,306,916
Rainbow Marina	703,203	717,267	731,612	746,245	857,200
Total Slip Revenue	\$20,237,205	\$22,193,134	\$22,636,997	\$23,089,737	\$26,522,850
Other Revenue	1,979,350	2,018,937	2,059,316	2,100,502	2,412,817
Total Gross Revenue	\$22,216,556	\$24,212,071	\$24,696,313	\$25,190,239	\$28,935,667
EXPENSES ⁽³⁾					
Maintenance	\$4,158,889	\$4,262,861	\$4,369,433	\$4,478,668	\$5,323,729
Parks & Recreation Operations	\$5,135,546	\$5,063,935	\$5,190,533	\$5,320,296	\$6,324,160
Security	\$2,366,018	\$2,425,168	\$2,485,798	\$2,547,943	\$3,028,703
Marine Safety/Lifeguards	\$1,832,125	\$1,877,928	\$1,924,876	\$1,972,998	\$2,345,275
Other	\$730,531	\$748,794	\$767,514	\$786,702	\$935,141
Total Expenses	\$14,223,109	\$14,378,686	\$14,738,153	\$15,106,607	\$17,957,009
Net Revenues	\$7,993,447	\$9,833,385	\$9,958,160	\$10,083,632	\$10,978,658
Debt Service					
Bond Debt Service	5,633,963	6,883,963	6,971,463	7,051,463	7,143,963
Total Debt Service	5,633,963	6,883,963	6,971,463	7,051,463	7,143,963
Debt Service Coverage	1.42	1.43	1.43	1.43	1.54
Net Revenue After Debt Service:	\$2,359,484	\$2,949,422	\$2,986,697	\$3,032,170	\$3,834,695

⁽¹⁾ Revenues are projected to increase 2% per year. It is anticipated that occupancy rates for the smaller slip sizes will continue to be extremely high and that demand for larger slips will continue to exceed supply. Revenue projections assume Project completion on schedule and within budget.

⁽²⁾ Revenues in 2018 are projected to increase by approximately 20%, respectively for the Alamitos Bay Marina due to the build out of the project.

⁽³⁾ Expenses are projected to increase 2.5% per year. In FY2018, a base personnel reduction of \$200,000 is reflected in anticipation of reduced maintenance costs due to new docks.

FITCH AFFIRMS LONG BEACH (CA) MARINA REVENUE BONDS AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-New York-28 February 2018: Fitch Ratings has affirmed the City of Long Beach, CA's \$114 million in series 2015 marina revenue bonds at 'BBB'. The Rating Outlook on the bonds is Stable.

The 'BBB' rating reflects the advantageous position of the City of Long Beach's marina system within the competitive marina landscape in Southern California, evidenced by an ample wait list for slip rentals across slip sizes, high occupancy levels, and stable financial performance. The rating also reflects the system's adequate rate-making flexibility and, demonstrated by continued historical rate increases and healthy coverage levels. The marina's renovation plan continues as planned and progress is on time and on budget. Given the nature of the marina system enterprise, Fitch's rating case assumptions are conservative and indicate somewhat lower near-term debt service coverage ratios, calculated post-renovation but could strengthen over the long term as newly renovated slips are rented and annual rate increases are implemented.

KEY RATING DRIVERS

Strong Market Position: The marina system benefits from a strong market position demonstrated by high occupancy levels and historically near-capacity operations. The system's slip rates have also remained competitive, historically lagging those of comparable marinas by approximately 5% to 6%. As such, Fitch expects low elasticity to accompany future rate increases.

Adequate Rate-Making Flexibility: The marina provides a narrow revenue stream to bondholders, which is partially mitigated by its unlimited legal rate-making flexibility. Management expects future rate increases to roughly track inflation at approximately 2% annually. Favorably, the marina has a history of increasing rates at above inflationary rates as necessary, which has allowed the marina system to maintain healthy coverage levels.

Improving Infrastructure: Long Beach's marinas were constructed in the 1950s and 1960s. Renovations on two of the three facilities were conducted between 2005 and 2007. Following completion of on-going renovations to the Alamitos Bay facilities, all marina facilities will have been renovated within the past decade and considered to be in a good state of repair.

Conservative Debt Structure: The system's debt profile is conservative, consisting of senior, fully-amortizing, fixed-rate debt and a cash-funded debt service reserve fund (DSRF) sized to maximum annual debt service. The marina's profile escalates at a 3.7% compounded annual growth rate (CAGR, 2017-2019) to approximately \$8 million in 2030 then remains level through maturity in 2045.

Financial Profile: The marina's historical coverage has remained healthy at over 1.5x in recent fiscal years; however, with a rising annual debt service profile, average DSCR under very conservative Fitch rating case assumptions could be closer to rate covenant levels. Year five rating case leverage, which is post completion of the Alamitos Bay renovations, is considered elevated at 11.3x, though expected to continually decline through final maturity, evidenced by full-term average leverage of 6.4x (base case of 5.0x).

PEER GROUP

Fitch does not rate any other stand-alone marina facilities, though Fitch-rated parking facilities serve as a reasonable peer group due to their similar business models with revenues driven by a

combination of usage fees and occupancy levels. In comparison to 'A' category parking peers, the marina has a similarly healthy market position but lower coverage levels and higher leverage levels. Parking peers in the 'A' category generally support robust metropolitan cities and have rating case average coverage levels of 2x or better with leverage below 3.5x.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:

--Occupancy rates measurably below 95% for a sustained period

Inadequate rate increases, which consistently pressure rating case average DSCRs below 1.25x, could warrant a downgrade. However, the marina system has historically maintained levels above this threshold, in line with its current BBB rating.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:

--Should financial performance continually outpace initial forecasts following completion of Alamitos Bay in 2018, which causes 10-year average rating case DSCRs to exceed 1.8x DSCR, upward rating action is possible.

CREDIT UPDATE

The Long Beach marinas together comprise the largest municipally run marina system in the nation, owned and operated by the Marine Bureau within the City's Parks, Recreation and Marine Department. The system has three marinas (originally built in the 1950s and 1960s): Shoreline, Rainbow and Alamitos Bay. Shoreline and Rainbow Marinas were rebuilt with concrete docks from 2005 - 2007, while Alamitos Bay was at the end of its physical design life prior to the ongoing renovations. Reconstruction of four of its eight basins was completed using Division of Boating and Waterways (DBW) loans and city funds, and the 2015 bonds were issued to fund remaining costs of the Alamitos Bay Marina Rebuild project.

Performance Update

Construction of Alamitos Bay has remained on time and under budget in fiscal 2017, without any changes to the scope of the project. Some small modifications were made to the sequence of basin reconstruction to take advantage of cost savings and strategically complete docks to fill in-demand slips. These rearrangements have not affected the final completion date, which remains March 2018, but have assisted the marina in saving approximately \$1.2 million in construction costs.

Operations at the marina remain stable, evidenced by strong average occupancy rates and over 130 customers on the slip rentals waiting list. Forty-foot slips have experienced declines in occupancy rates and waiting list length due to certain docks being completed, which has made more 40-ft slips become available and driving down occupancy rates until rented. There has been a slight lag in completely filling these newly opened slips; however, management is currently marketing to do so. Fitch expects some shuffling of customers between slips and marinas throughout the construction phase, which may result in some fluctuations in occupancy, albeit these patterns are expected to regulate post-completion of Alamitos Bay in March 2018.

Total unaudited fiscal 2017 revenues grew a robust 8.5%, with Alamitos Bay experiencing the highest revenue growth of the three marinas given its renovation, which has drawn additional demand to the renovated slips. Operating expenses grew 3.7% in fiscal 2017 due to timing of a few non-recurring expenses. DSCR (net of capitalized interest) was 1.6x in fiscal 2017, in line with fiscal 2016 and Fitch expectations, and leverage declined to 13.3x at fiscal year-end 2017, from 15.6x at fiscal year-end 2016.

Fitch Cases

Fitch's base case assumes 2% per annum increases in slip rental rates for all marinas and post-construction occupancy of at least 95% for all slips, resulting in average revenue growth of 2.3% over the life of the bonds. Fitch's rating case revenue assumptions incorporate a slowdown in revenue growth in fiscal years 2019 to 2022, growing at only 1.1% per annum before returning to the 2% per annum inflationary increases through the life of the debt. Occupancy rates are stressed to a conservative 90% under Fitch's rating case. Post-completion operating expenses grow at an inflationary rate of 2% in the base and rating case. Fitch's analysis yields base and rating case post-completion 10-year average DSCRs of 1.5x and 1.2x, respectively. Full-term average DSCRs are 1.7x in the base case and 1.3x in the rating case. Post-completion year five leverage is elevated in the 8x to 10x range, but moderates to 5x to 6x over the life of the debt.

While the marina's elevated leverage figures and lower rating case coverages are a concern, Fitch anticipates initially weaker metrics to strengthen over the medium term via continued net revenue growth. Additionally, Fitch's rating case assumptions are particularly conservative in comparison to the marina's demonstrated history of raising rates to offset slip rental declines while simultaneously cutting operating expenses. If the marina continues to maintain strong occupancy levels, increase slip rental rates as necessary, and prudently manage operating expenses, its long-term financial profile is expected to remain in line with Fitch's base case expectations, commensurate with a 'BBB' rating in comparison to peers.

SECURITY

The bonds are secured by a pledge of net revenues of the city's municipal marina system. Net revenues are defined as the gross revenues of the marina system, less operating and maintenance expenses of the marina system.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Rating Criteria for Infrastructure and Project Finance (pub. 24 Aug 2017)

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