OFFICE OF THE CITY AUDITOR
Long Beach, California

R-15
Revised

LAURA L. DOUD, CPA
City Auditor

April 12, 2011

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the attached report titled "Review of the Viability of Alamitos Bay Marina Rehabilitation Project" (Rebuild Project) and request City Management to review the recommendations, develop strategies for implementation, and update the City Council and City Auditor as to the status of the Rebuild Project within six months from the date of receipt and filing of this report.

DISCUSSION:

Our Office performed a review of the Rebuild Project to determine if the Marine Bureau could absorb the anticipated $90 million in additional debt associated with the project without requiring subsidies from the Tidelands Fund or City's General Fund.

Overall, we found several important issues related to the funding of the Rebuild Project that raise questions whether moving forward with this considerable project is in the best interest of the City of Long Beach. Specifically, we found the total costs for the entire Rebuild Project at the close of our fieldwork were estimated to be over $96 million of which $90 million will be paid through debt - $40 million in Department of Boating and Waterways (DBAW) loans and $50 million in municipal revenue bonds. The key findings and conclusions are:

- We were unable to conclude on the Alamitos Bay Marina's (Marina) financial viability to undertake the Rebuild Project as the preliminary pro-forma financial analysis prepared by Marine Bureau Management to justify construction was incomplete, insufficient, and lacked critical financial assumptions. This finding relates to all phases of the Rebuild Project, including Phase I – Basin 4 where design and engineering contracts are already in place and DBAW loans have been received by the City.

- Marine Bureau Management's decision in 2007 to request contractor bids for a single design and project costs for the rebuild instead of requesting several solutions/options with varying levels of repair/rebuild and costs, limits the City's ability to select the option that best meets the City's needs and the Marina's debt capacity.

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In the absence of an adequate financial pro-forma analysis, it is unclear if the Marina can generate sufficient revenues to repay the debt. Moving forward with the Rebuild Project without demonstrating that adequate revenue sources for debt repayment have been secured puts the Tidelands Fund and/or the City's General Fund at risk of supporting the Marina. It would be much more fiscally prudent to complete a thorough financial pro-forma of the entire Rebuild Project and, using this information, determine if the City can afford the Rebuild Project as currently designed or elect to explore other size and design options.

Detailed information regarding the results discussed above is included in the attached report.

We express our appreciation to the Department of Parks, Recreation, and Marine and the Department of Financial Management for providing its time, information, and cooperation during the review.

TIMING CONSIDERATIONS:

City Council approval is requested on April 12, 2011.

FISCAL IMPACT:

The Marina Fund is projected to incur $90 million of debt to complete the Rebuild Project as currently designed. Before proceeding with the Rebuild Project, City Council and City Management should be confident the Marina Fund is able to support projected debt levels without requiring Tidelands or General Fund revenues.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

Laura L. Doud

LAURA L. DOUD, CPA
CITY AUDITOR

Attachment

City of Long Beach
Office of the City Auditor

Review of the Viability of Alamitos Bay Marina Rehabilitation Project

March 2011

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Executive Summary

It is widely viewed that the City of Long Beach's (City) Alamitos Bay Marina is in need of significant renovation and repair. Its pilings, piers, wharves and docks were built in the 1950s and 1960s and appear to be past their original design life. Also, silt has accumulated in the basin posing hazards to navigation. In January 1999, the Marina embarked on a project to rebuild the Alamitos Bay Marina's seven basins in phases using financial reserves, funds lent to the City by the California Department of Boating and Waterways and through municipal revenue bonds that would be sold on the open market. Construction is currently slated to begin in 2011 and is hoped to be completed in 2016 at a total cost of approximately $96.2 million.

Under contract with the Office of the City Auditor, Sjoberg Evashenk Consulting has completed a review of the viability of Alamitos Bay Marina Rehabilitation Project (Rebuild Project). The overall objective of this review was to conclude on the Marine Bureau's (Marina) financial viability to undertake this major Rebuild Project. An additional objective of the review was to obtain reasonable assurance that administration and management of slip inventory and associated revenues is appropriate and generating maximum benefit for the City and boat owners. Based on the information gathered and analyzed relative to these objectives, we describe the results of our review in the following report sections:

Section 1 – Viability of Alamitos Bay Marina Rebuild Project

Overall, we were unable to conclude on the Marina's financial viability to undertake the Rebuild Project as the preliminary pro-forma financial analysis prepared by the Marina to justify construction was incomplete, insufficient, and lacked critical financial assumptions. Specifically, the Marina sought to construct the Rebuild Project based on a defined scope of work, which resulted in a single design and project cost for the entire project rather than several solutions/options with varying levels of repair/rebuild and cost. Additionally, we found the pro-forma financial analysis developed by Marina management did not consider key revenue and expenditure projections, such as:

- ✓ Changes in slip occupancy resulting from general occupancy adjustments or changes due to planned modifications to the Alamitos Bay Marina's slip mix (e.g. fewer small slips).
- ✓ Changes in operating costs, such as reductions in maintenance costs after the Rebuild Project is complete.
- ✓ Increases in debt service requirements due to the potential issuance of $50 million in revenue bonds that would be needed to fully construct and complete the Rebuild Project.

Without being significantly improved, Marina management's pro-forma financial analysis does not currently justify a construction project of this magnitude. As it stands, the current pro-forma financial analysis does not provide sufficient information to obtain City Council approval to issue nearly $50 million in municipal revenue bonds needed to cover the current project funding shortfall as the Marina only has a portion of the financing secured through Department of Boating and Waterway (DBAW) loans ($40.4 million) and City provided funding (a 2010 fund balance transfer of $5 million and 2011 budgeted expenditures of $1.2 million). Moreover, neither bond rating companies, underwriters nor brokers would agree to market any bonds the

Marina would contemplate issuing supported by this inadequate financial analysis. According to the City Treasurer, Marina fee revenues will be the only source of monies available to cover Marina operational expenses as well as service debt requirements, including debt associated with the Rebuild Project. As such, it is critical for the Marina to not only accurately project revenues that will be available to cover Marina expenses, but also carefully estimate future expenditures to adequately calculate the Marina's debt capacity prior to undertaking the Rebuild Project.

In early December 2010, during the course of our review, we were informed that the Marina and City Treasurer engaged a financial analysis firm to work on creating a pro-forma financial analysis that would address many of the deficiencies we identified. However, at the time we completed our fieldwork, Marina management was still unable to provide any indication as to when the revised analysis would be complete and available for review, and thus, a revised analysis was not available for our review and consideration.

Additionally, moving forward with the construction phase of the project, including Basin 4, is dependent upon the Marina receiving approval from the California Coastal Commission for a development permit. The Marina received conditional approval from the Commission on January 13, 2011 pending the resolution of 15 conditions, which included the submission of revised project plans that incorporate provisions that ensure control over adverse impacts to water quality and no interference with public access to the Marina. It is unclear when the conditions will be resolved for the Marina to receive final approval from the Commission for the development permit.

Section 2 – Marina Administrative Operations

While the focus of our review was on the financial viability of the Rebuild Project, we also assessed the impact of the Rebuild Project on related Marina administrative activities and operations, such as slip inventory changes, slip fee rate increases, and funding for concessionaire facility improvements. We found that the Marine Advisory Commission approved the reduction in the total number of slips at the Alamitos Bay Marina from its current 1,996 to an estimated 1,644 after the Rebuild Project is complete. To accommodate the reduction in the number of future slips as well as the need for available space during the construction phase of the project, Marina management opted not to permanently refill cancelled slip permits, but allowed for the use of temporary slip assignments. As a result, over the last several years, the Marina's slip revenues have remained generally steady irrespective of whether they were generated via long-term or short-term leases. Further, we found:

- ✓ Slip fee rate increases were appropriately approved by the City Council as part of the annual budget process;
- ✓ Slip inventory and vacancy records tracked, for the most part, with our observations of occupancy; and
- ✓ Estimates of slip revenues based on occupancy rates reasonably agreed with slip revenues recorded.

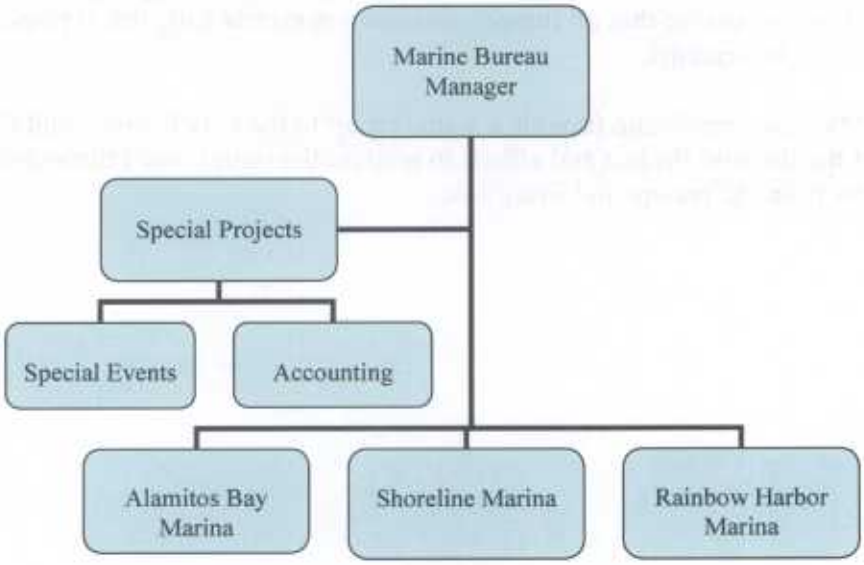
However, certain payments made over the counter at Marina offices related to temporary slip permit fees, guest mooring fees, and keys are handled by staff sharing a single cash drawer. This practice should be discontinued and staff should have sole control over monies they collect.

Further, our review revealed that the Marina is responsible for only a small portion of the Marina's concession agreements as most are handled by the City's Community Development Department. However, two leases that the Marina is responsible for administering relating to two fuel docks have not clearly identified the party responsible for paying costs associated with constructing major improvements. The uncertainty surrounding the entity responsible (City, leasee, Marina users, or a combination) for funding major improvements has resulted in one of the Marina's fuel docks in need of improvements to its underground fuel tank remaining closed for several years. While the Marina and various City entities are working together to resolve the issue, the Marina should ensure that all future concession contracts fully detail responsibilities for funding major improvements.

Lastly, Marina Management should provide a status report to the City Council and City Auditor as to progress of the Rebuild Project and efforts to address the issues noted throughout this report within six months from the receipt and filing date.

Background

The City of Long Beach's (City) Parks, Recreation, and Marine Department's Marine Bureau is responsible for maintaining its marinas in a "sanitary, sightly, and orderly condition and for preserving the public health, safety, peace, welfare, and convenience in the use." The Long Beach Marinas consist of three distinct marinas that are centrally administered and overseen by the Marine Bureau Manager:



To maintain the marinas, the City collects user fees from the public for use of marina facilities, including permanent and temporary slip permit and guest mooring fees. The marinas have various slip sizes that range from 20 to 100 feet in length and slip rental fees are based on size of the slip permitted. For example, according to the City's slip fee rate schedule, a permit for a 30-foot slip would result in a slip fee of $370 per month or $4,440 annually whereas a 20 foot slip fee would cost $164.45 per month or $1,973.40 annually. The City established Fund 403 to account for monies supporting operational activity for the three marinas.

In addition to the Marine Bureau, other key entities involved with the Alamitos Bay Marina Rehabilitation project include:

- Marine Advisory Commission—Provides oversight to the Marina and is charged with enhancing and preserving the beaches, waterways, and adjoining facilities in the City.
- Long Beach Department of Financial Management—Collects most slip permit fees and provide support to the Marina regarding Fund 403 financial information and analysis.
- California Department of Boating and Waterways—Develops convenient public access to the waterways through programs such as providing loans for the construction of marinas throughout the State, including the Alamitos Bay Marina.
- California Coastal Commission—Regulates the use of land and water in the coastal zone, including issuing permits for development activities, such as the Rebuild Project.

Scope and Methodology

The Long Beach City Auditor contracted with Sjoberg Evashenk Consulting to conduct a review of the viability of Alamitos Bay Marina Rehabilitation Project. The review objectives were to:

- Determine if the financial position of the Marina fund is currently self-sufficient and able to absorb additional debt required for the Alamitos Bay Rebuild project.
- Obtain reasonable assurance that the administration and management of slip inventory and associated revenues is appropriate and generating maximum benefit for the City and boat owners.

To conduct this review we performed a variety of tasks, including:

- Reviewed the RFP and two corresponding proposals to design and construct the Alamitos Bay Marina Rebuild project.
- Reviewed the executed contract between the City of Long Beach and the selected contractor as well as the City's contracts with the environmental consulting firm providing specialized environmental consulting services and the construction management firm assisting with overall oversight of the rebuild project. Compared contract scope of work and cost with RFP proposal scope of work and cost, including maintenance services offered.
- Compared the estimated project costs associated with the rebuild with funding already secured by the Marina, largely Department of Boating and Waterways (DBAW) loans. Inquired with the Marina Director regarding plans to secure the additional project funding needed (approximately $50 million) as well as to reduce the scale of the project if securing additional funding is not feasible.
- Reviewed Marina's budgeted and actual revenues/expenditures for the last several years.
- Reviewed slip occupancy, vacancy, and waiting list rates over the last several years and interviewed the Alamitos Bay Supervisor to understand the Marina Department's strategy to assign and hold slips while planning for future construction activity.
- Compared the stated status (e.g. occupied, vacant) of slips per current database records to our physical observation of slip status. Also, compared database records and our physical observations to invoices to ensure slip fees are charged appropriately as well as analyzed the slip fee structure with slip occupancy rates and compared against stated revenues.
- Gained an understanding of the Marinas' role in concession agreements versus the City's Community Development Department's role. Also, inquired about the Marina's approach to financing improvements to tenant facilities.
- Reviewed the controls over the Marinas' invoicing processes, revenue collection processes (four collection points), and deposit processes.
- Reviewed the Marina Director's preliminary pro-forma that includes estimates related to future revenue, expenditures, and payback requirements associated with DBAW loans for the past rebuilding of the downtown marinas as well as loans for the future Alamitos Bay Rebuilding project.

- Interviewed Marina management and staff to gain an understanding of the Marina's financial position as well as rules and regulations guiding the operation of the City's marinas.
- Interviewed the City's Treasurer (Finance Department) to understand his role with the financial analyses developed for the Alamitos Bay Rebuild project.

It is important to note that the scope and objectives of this project did not include developing the underlying source information necessary to complete the financial analysis. Our analysis was to rely on the cost and revenue estimates provided by the City against which we would evaluate the reasonableness of the information provided.

Moreover, as we were finalizing the audit report, a series of issues came to light:

- DBAW officially notified the City in January 2011 (informally notified officials in late 2010) that the City that loans approved for Basin 4 may be rescinded due to restricted public access issues surrounding the Long Beach Yacht Club docks and slips. At that time, nearly $2.9 million in loan reimbursements had already been provided by DBAW on design and engineering activities. While we were told that the City Manager and City Attorney are working with the Marina management and DBAW to resolve the issues, it is unclear when or if changes will be accepted and the City's eligibility to receive loan funding for the project will be reinstated. If loan funding eligibility is not reinstated, the current project funding shortfall of nearly $50 million needed to be covered through a municipal bond issuance will be significantly larger and the loan reimbursements already provided by DBAW ($2.9 million) to the Marina may have to be immediately repaid. As of February 17, 2011 we were not aware of a resolution to this issue.
- Although Marina management represented to us sufficient funding for Basin 4 had been secured, it does not appear all DBW loans are finalized and approved. For example, DBAW is requiring a full project funding plan before an additional $9.97 million in proposed reimbursement loans will be approved. According to Marine Bureau Management, the funding plan is due by May 31, 2011 and as of February 17, 2011, we were not aware that the full funding plan had been developed or provided to DBAW.
- Total project cost estimates provided to us by Marine Bureau Management do not agree with recent cost information management provided to DBAW.
- Management will be requesting that current contracts totaling more than $13 million with Bellingham marine be increased to $18.23 million to cover the current cost estimates for the design, engineering, and construction of Basin 4. Only $2.9 million of the original contracts have been expended.

As a result, cost and funding information detailed in our report may differ from subsequent amounts reported by Marina management. What is more, additional pertinent information could exist that we have not been made aware of.

Section I – Viability of Alamitos Bay Marina Rehabilitation Project

The City of Long Beach's (City) Alamitos Bay Marina Rehabilitation Project (Rebuild Project) is currently slated to begin in 2011 and is hoped to be completed in 2016 at a total cost of approximately $96.2 million (including design, engineering, construction, Environmental Impact Reviews, landscaping, eelgrass mitigation, and other internal and contingency costs.) According to the City's Marine Bureau (Marina), the $96.2 million cost of the project is expected to be funded via:

- Department of Boating and Waterways (DBAW) Loans—$40.4 million
- City Provided Funding (2010 Marina Fund Balance Transfer and 2011 Budgeted Expenditures)—$6.2 million
- Municipal Revenue Bond Issuance[1]—$49.6 million

To determine whether the Marina is in a financial position to undertake a project of this magnitude, we reviewed the Marina's preliminary pro-forma financial analysis. This analysis includes estimated costs to complete the project, projected revenues to be generated by the Marina, and the associated expenses of operating the Marina both during construction and afterward, including debt service (interest and principal) payments from loans and revenue bond proceeds. Our review of the preliminary pro-forma financial analysis included the following:

- Determining the reasonableness of the total estimated cost to construct and complete the Rebuild Project.
- Evaluating the Marina's revenue estimates and identifying the methods used to create the underlying revenue stream to support all costs, including debt service on loans and revenue bonds.
- Analyzing the Marina's cost estimates, inflation factors and other expenses to assure that all reasonably expected costs are included in the pro-forma financial analysis.

Overall, we cannot conclude whether the Rebuild Project can viably be constructed by the Marina with the financial information currently contained in the incomplete and insufficiently detailed preliminary pro-forma financial analysis the Marina prepared to justify construction. Specifically, we found that the Marina sought to construct the Rebuild Project based on a defined scope of work, which resulted in a single design and project cost for the rebuild instead of resulting in several solutions/options with varying levels of repair/rebuild and cost.

Further, although the Marina's pro-forma financial analysis considered certain small reductions in future concession revenue, the Marina did not consider several critical components when projecting future revenues, such as future changes in slip occupancy. Rather, the pro-forma financial analysis utilized 2010 slip fee rental revenue as a baseline for future revenue and only escalated estimates of future slip fee rental revenues via a "plugged" percentage increase to ensure revenues were raised enough to meet the City's operating expenditure coverage

[1] Principal and interest secured by revenues generated by the Marina, including slip fees.

requirement. On the expenditure side, we found the Marina's pro-forma financial analysis did not consider or involve cost escalators that are specific to Marina operational expenditure; reflect expected decreases in maintenance costs after the Rebuild Project is complete, or future increases in debt service requirements related to issuing approximately $50 million in revenue bonds.

Without being significantly improved, the pro-forma financial analysis does not currently justify a construction project of this magnitude, nor would it provide sufficient information to obtain City Council approval to issue nearly $50 million in municipal revenue bonds needed to finance the project as the Marina only has a portion of the financing secured through loans. Moreover, neither bond rating companies, underwriters nor brokers would agree to market any bonds the Marina would contemplate issuing supported by this inadequate financial analysis.

In early December 2010, during the course of our review we were informed that the Marina and City Treasurer engaged a financial analysis firm to work at creating a pro-forma financial analysis that would address many of the deficiencies we identified in our review. However, at the time we completed our fieldwork on this review, the revised analysis was not complete, and thus, was not available for our review.

Following is a detailed discussion of our concerns regarding the key elements of the Marina's preliminary pro-forma financial analysis.

Project Cost Estimates

Overall, we found that the proposals submitted to construct the Rebuild Project were very consistent in approach and cost. However, the bid cost figures reflected in the selected proposal, and the basis of project cost estimates in the preliminary pro-forma financial analysis provided to us for review, represent competitive construction costs as of late 2007, and as a result, may no longer be accurate. Additionally, Marina management's decision to define the scope of work to a full Marina-wide rebuild resulted in a single design and project cost for the rebuild instead of resulting in several solutions/options with varying levels of repair/rebuild and cost.

In October 2007, the Marina issued a request for proposal seeking qualified construction contracts to submit bids for the rehabilitation of the Alamitos Bay Marina. In December 2007, the Marina received two bids that were very similar in scope and cost—Bellingham Marine and Connolly-Pacific Co. The RFP for the Marina rebuild required that proposers provide a single, specifically defined, scope of work with corresponding cost estimates. The final two bids provided by two firms are as shown on Table 1, and Bellingham Marine's proposal of $80.1 million was ultimately selected. This bid included the contractor providing project maintenance for 30 years.

Table 1. Comparison of the Rebuild Project's Request for Proposal Responses

	Bellingham Marine	Connolly-Pacific Co.
Marina Rehabilitation		
1. Remove and Replace Floating Dock System	$ 47,204,925	$ 52,064,000
2. Pre-Stressed Concrete Pile	$ 4,068,822	$ 3,788,000
3. Dredging and Disposal	$ 4,572,257	$ 5,433,000
4. Slope Restoration	$ 145,268	$ 216,000
5. Seawall Repair	$ 4,404,429	$ 1,140,000
6. Gangway/Guardrail Replacement	$ 3,053,941	$ 3,521,000
6a. Eelgrass Mitigation and Monitoring	N/A	$ 50,000
7. Boat Hoist Installation	$ 133,613	$ 141,000
8. Long Beach Yacht Club Long Docks	$ 923,786	$ 732,000
9. Dock Wheels	$ 180,000	$ 109,000
10. 30 Year Maintenance (Years 11 to 40)	$ 1,230,000	N/A
11. Landside Improvements (separate, but included, proposal)	$ 8,265,056	$ 7,824,000
12. Restroom Reconstruction (separate, but included, proposal)	$ 5,934,860	$ 6,643,500
Deduction for awarding all phases	N/A	$ (439,000)
GRAND TOTAL	**$ 80,116,957**	**$ 81,222,500**

In addition to the design, engineering and construction costs from Bellingham Marine, approximately $18 million in project management, Environmental Impact Reports, eelgrass mitigation, contingencies and other internal costs have been budgeted to bring the entire Rebuild Project costs to about $98.5 million in April 2008.

Also, the bid figures reflected in the selected proposal were utilized by Marina management in developing its preliminary pro-forma analysis. However, these figures represent competitive construction costs as of the time of the final project scope letter in April 2008, and as a result, may no longer be accurate. In fact, estimated total project costs have decreased from nearly $98.5 in April 2008 to approximately $96.2 million in December 2010, as shown in Table 2.

Table 2. Comparison between April 2008 Cost Estimate and December 2010 Revised Cost Estimate[2]

	Entity Providing Service	April 2008 Original Cost Estimate	December 2010 Revised Cost Estimate
Marina Rehabilitation (From Table 1)	BMI	$ 80,116,957	$ 80,052,473
	BMI	$ -	$ 2,089,752
Design/Engineering	Trans Systems	$ -	$ 1,614,610
Project Management	Trans Systems	$ 6,000,000	$ 4,385,390
EIR	Trans Systems	$ 500,000	$ 500,000
Eelgrass Mitigation	BMI	$ 1,696,250	$ 1,696,250
Basin 1 Mercury	BMI	$ 1,200,000	$ 1,200,000
Landscaping Enhancements	BMI	$ 1,800,000	$ 1,800,000
Trash Enclosures	BMI	$ 814,000	$ 794,000
Internal Costs	City	$ 2,076,116	$ 2,076,116
Contingencies		$ 4,277,287	$ -
TOTAL PROJECT COSTS		**$ 98,480,610**	**$ 96,208,591**

Lastly, while we found that the two firms that responded to the RFP provided proposals that were very consistent in approach and cost, the defined scope of work required a single design and project cost for the entire Rebuild Project instead of requesting several solutions/options with varying levels of repair/rebuild and cost. Without various options, the City is left with an "all or nothing" approach to the Rebuild Project that requires significant funding, including a potential $50 million municipal revenue bond issuance to cover project costs that state loans will

[2] December 2010 revised cost estimate provided by Marina management.

not cover. The allocation of project costs amongst the Alamitos Bay Marina basins, the associated project funding, and estimated funding shortfall is reflected in Table 3.

Table 3. Allocation of Project Costs, Project Funding, and Estimated Funding Shortfall[3]

	2011	2012	2013/2014	2015	
	Basin 4	Basin 1	Basins 2/3	Basins 5, 6 & 7	December 2010 Revised Cost Estimate
Marina Rehabilitation (From Table 2)	$ 13,554,748	$ 17,098,729	$ 44,550,000	$ 4,848,996	$ 80,052,473
All Other Costs Combined	$ 8,536,002	$ 2,275,000	$ 3,794,000	$ 1,551,116	$ 16,156,118
TOTAL PROJECT COSTS	**$ 22,090,750**	**$ 19,373,729**	**$ 48,344,000**	**$ 6,400,112**	**$ 96,208,591**
PROJECT FUNDING:					
Total Department of Boating and Waterways Loans	$ 21,195,000	$ 10,230,000	$ 9,000,000		$ 40,425,000
City of Long Beach Funding (Marina 2010 Fund Balance Transfer and FY 2011 Budgeted Expenditures)	$ 6,200,000				$ 6,200,000
TOTAL PROJECT FUNDING	**$ 27,395,000**	**$ 10,230,000**	**$ 9,000,000**		**$ 46,625,000**
Excess/(Shortfall)	**$ 5,304,250**	**$ (9,143,729)**	**$ (39,344,000)**	**$ (6,400,112)**	**$ (49,583,591)**

As shown on Table 3, the gap between total project costs and project funding is nearly $50 million, which the Marina anticipates issuing municipal revenue bonds to supplement the DBAW loans. Additionally, of the $40.425 million in DBAW reimbursement loans, $21.455 million has been approved by DBAW and appropriated. The remaining $18.97 million is awaiting state approval pending certain contingencies, including the City of Long Beach providing DBAW with a letter of intent outlining the City's plan to move forward with a bond issuance to close the funding gap to complete the Rebuild Project.

During the course of audit fieldwork, Marina management stated on numerous occasions that sufficient funding had been secured to complete Basin 4 (see Table 3) through DBAW approved loans and as such, that phase of the project would move forward irrespective of the Marina's ability to secure the additional funding needed to complete the remaining basins. In fact, two contracts totaling more than $13 million for design, engineering, and construction of Basin 4

[3] Project costs are arrived at using the numbers from Table 2 and Marina management further broke the project costs figures down by basin. Project funding figures per DBAW loan documents and fund balance transfer figures per City of Long Beach financial system.

were executed in September 2008 and May 2010 between the City and the selected builder (see Marina Rehabilitation costs for Basin 4 on Table 3). As of December 2010, the Marina has demonstrated they have begun moving forward with the project as they have already received nearly $3 million dollars in loan reimbursements from DBAW for Basin 4 design and engineering activities related to these two contracts.

However, moving forward with the construction phase of the project, including Basin 4, is dependent on the Marina receiving approval from the California Coastal Commission for a development permit. Receiving approval for the development permit requires approval of the project development plans and certain conditions relating to the protection of recreational boating opportunities, public access, water quality, and marine resources of Alamitos Bay. The Marina received conditional approval from the Commission on January 13, 2011 pending the resolution of 15 conditions, including the submission of revised project plans that incorporate provisions such as:

- In-slip sewage pump out facilities for all new slips;
- Construction of additional dry boat storage areas in Basins 2 and 3;
- At least 164 trailered vessel stalls;
- Drainage plan for the surface areas being repaved;
- Detailed water quality/best management practices program for controlling adverse impacts to water quality; and,
- No interference with public access and no gates are permitted except at the entrance to gangways.

It is unclear when the conditions will be resolved for the Marina to receive final approval from the Commission for the development permit.

Revenue Estimates

Although the Marina considered certain small reductions in concession revenue, we found that otherwise the Marina did not consider several critical components when projecting future Fund 403 revenues, such as:

- Changes in slip occupancy resulting from general occupancy adjustments or
- Changes that will occur due to the planned modifications to the Alamitos Bay Marina's slip mix (e.g. fewer small slips) after the Rebuild Project is complete.

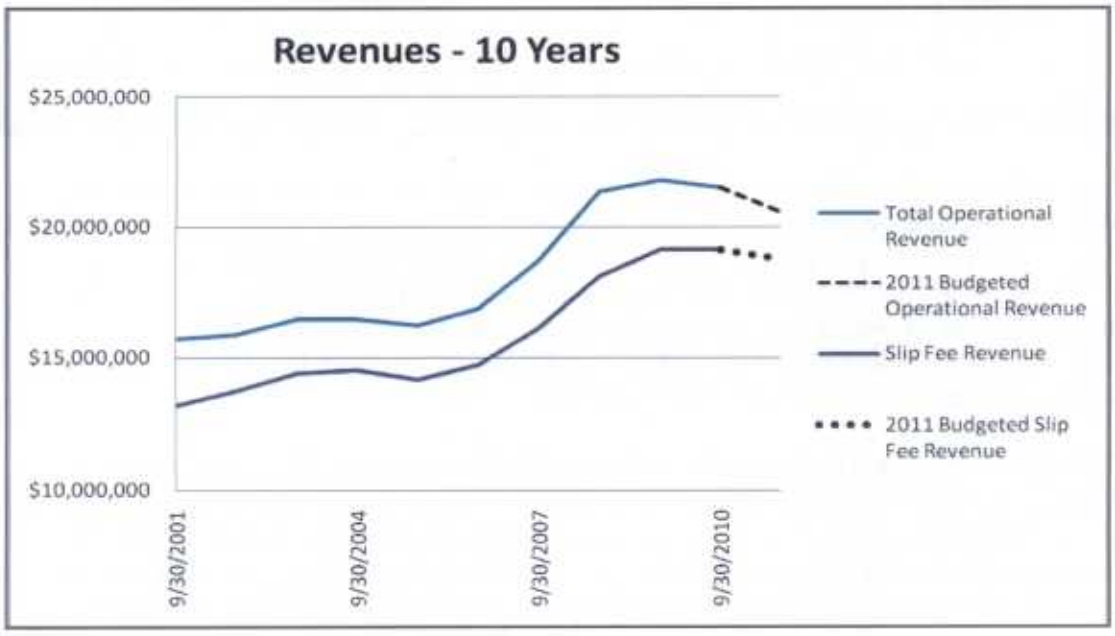
Any potential changes in slip occupancy could impact the amount of revenues available to cover operational expenses and to service debt requirements, including any debt associated with the Rebuild Project. In fact, the Long Beach City Treasurer indicated that under no circumstances should the City's General Fund be relied upon to cover expenses or assist with debt payments. While our estimates reflect that the Alamitos Bay Marina will generate slightly more slip revenue for the Marine Bureau after the rehabilitation, it is nonetheless critical for the Marina to consider any possible changes that could impact projections of future revenues available for operational expenditures as well as service debt repayments.

The Marina's various type of revenue sources include:

- Slip Fees[4]—90 percent
- Rentals and Concessions[5]—8 percent
- State Grants, Misc. Revenue from Other Agencies, Towing Fees, Administration Fees, Interest, and Other—2 percent (combined)

The Marina's total operational revenues, including slip fee revenues that accounted for about 90 percent of total operational revenues in 2010, have generally increased over the last ten years with a slight decrease in 2010 and another decrease expected during Fiscal Year 2011 according to the approved budget, as shown in Figure 1.

Figure 1. Marina (Fund 403) Revenues over the Last Ten Years



Marina management's first step in determining Fund 403's debt capacity was to estimate the amount of future Marina revenues that will be available to support financing the Rebuild Project. As reflected in Table 4, total operational revenues were $21.5 million in 2010 and are budgeted at $20.6 million in 2011—as such, more than $975,000 less revenue is expected during 2011 than was realized in 2010.

[4] Monthly slip permit fees paid by the public to dock vessels at the Marina.
[5] Generally commercial leases related to retail, restaurants, fuel docks, etc.

Table 4. Marina (Fund 403) Operational Revenue—Fiscal Year 2006 through Present

	9/30/2006	9/30/2007	9/30/2008	9/30/2009	9/30/2010	9/30/2011 (Approved Budget)
Slip Rental Fees and Penalties	$ 14,716,684	$ 16,126,711	$ 18,115,944	$ 19,140,535	$ 19,126,359	$ 18,745,432
Guest mooring fees, key revenue, waiting list fees, and parking fees	$ 269,451	$ 285,796	$ 273,689	$ 251,319	$ 240,638	$ 325,230
Sub Total Marina Slip Fees	*$ 14,986,135*	*$ 16,412,507*	*$ 18,389,633*	*$ 19,391,854*	*$ 19,366,997*	*$ 19,070,662*
Rentals and Concessions	$ 1,590,357	$ 1,857,804	$ 2,639,590	$ 1,845,041	$ 1,743,850	$ 1,147,215
State Grants	$ 52,854	$ 52,854	$ 60,026	$ 49,544	$ 72,926	$ -
Misc. Revenue from Other Agencies	$ 101,855	$ 101,855	$ 101,855	$ 101,855	$ 101,855	$ 101,855
Towing Fees	$ 13,542	$ 10,545	$ 6,411	$ 9,385	$ 11,962	$ 9,695
Administration Fees	$ 71,312	$ 79,974	$ 83,318	$ 154,393	$ 87,161	$ 78,059
Interest	$ (5,960)	$ (116,657)	$ (6,384)	$ 154,274	$ 109,987	$ 67,000
Other (Sales of Equipment, Misc. Revenue, Charges for Special Service, etc.)	$ 65,751	$ 287,793	$ 99,264	$ 76,613	$ 37,258	$ 78,820
Total Operational Revenue	**$ 16,875,846**	**$ 18,686,675**	**$ 21,373,713**	**$ 21,782,959**	**$ 21,531,996**	**$ 20,553,306**

The anticipated five-percent decrease in 2011 total operational revenue is largely a result of about $600,000 less in expected rentals and concessions. This reduction is due to the City's decision to move concession revenue related to the Shoreline Marina Marketplace from the Marina Fund 403 to a fund within the City's Community Development Department, the entity that is responsible for administering and managing the related concession contracts. Additionally, the rest of the decrease is a result of reduced slip revenues in 2010 compared to 2009 and even fewer slip revenues anticipated in 2011.

While the reduction in concession revenue related to Shoreline Marina Marketplace was reflected in the pro-forma financial analysis prepared by Marina management and provided to us for review, the analysis did not consider or estimate future changes in slip occupancy or the corresponding impact on future slip revenues even though slip fee revenues have decreased in the last several years. Rather, 2010 budgeted slip rental fee revenues of $18,745,432[6], and therefore 2010 slip occupancy rates were used as a baseline for future slip rental fee revenues 30 plus years forward. What is missing and not considered within the current pro-forma financial analysis of future slip rental fee revenue are changes in slip occupancy resulting from general occupancy adjustments at all three marinas based on historical experience as well as specific occupancy adjustments that will occur due to planned modifications to the Alamitos Bay Marina's slip mix after the rebuild is complete—both of which will have some level of impact on future slip rental fee revenues and should be at least considered.

For example, the total number of permanently occupied slips at the three marinas has continued to slightly decline (3 percent) over the last several years—from about 3,085 in September 2007 to about 2,990 in September 2010. It appears that part of the decline can be attributed Marina management's decision to hold some Alamitos Bay Marina slips vacant rather than filling

[6] 2010 and 2011 budgeted slip rental fee revenues were the same - $18,745,432

vacancies as they arise due to pending construction and reconfiguration of the slip mix. Excluding Alamitos Bay Marina, the number of permanently occupied slips has remained very flat over the last several years at the Rainbow and Shoreline Marinas—refer to Appendix A for permanent slip occupancy and waiting list rate trends. Whether or not the decline in the number of permanently occupied slips is solely a result of holding some Alamitos Bay Marina slips vacant to accommodate the evolving slip mix and pending construction or perhaps also involves the softening of the marine industry specific market and the overall economic environment, the pro-forma financial analysis developed by Marina management to determine Fund 403's debt capacity does not, but should, consider this type of historical changes in occupancy rates as part of its projections of the Marina's future slip revenues.

In addition to a lack of consideration for historical changes in permanent occupancy rates, the pro-forma financial analysis does not consider the impact on future revenue related to pending changes in the number and type of slips at the Alamitos Bay Marina. Specifically, upon completion of the Alamitos Bay Marina rehabilitation project (estimated 2016), the number of slips at this Marina will be reduced by 352 slips from 1,996 to 1,644 (18 percent) and the slip mix will change significantly with fewer smaller slips and more larger slips (see slip mix changes detail in Appendix B). As shown in Table 7, as a result of the changes in slip mix and based on occupancy rates alone, we estimated that the Alamitos Bay Marina will generate slightly more slip revenue for the Marine Bureau after the rehabilitation—$8,447,309 after the rehabilitation compared to $8,213,424 based on 2010 slip occupancy rates (refer to Table 5 in Section II of this report).

Table 5. Alamitos Bay Marina Estimated Annual Slip Revenue After Rebuild Project Based on Estimates of Occupancy[7]

Slip Size	Proposed Slip Mix After ABM Rebuild	2010 Slip Fee Rates (Monthly)	Estimated Slip Revenue after ABM Rebuild at 100% capacity at 2010 Rates	Estimated Occupancy After ABM Rebuild	Revenue Based on Estimated Permanent Occupancy Rates after the ABM Rebuild
Alamitos					
20	161	$ 164.45	$ 317,717.40	161	$ 317,717.40
25	238	$ 256.95	$ 733,849.20	238	$ 733,849.20
30	246	$ 370.00	$ 1,092,240.00	246	$ 1,092,240.00
35	307	$ 471.60	$ 1,737,374.40	264	$ 1,494,028.80
40	350	$ 584.65	$ 2,455,530.00	260	$ 1,824,108.00
45	123	$ 688.55	$ 1,016,299.80	109	$ 900,623.40
50	160	$ 787.90	$ 1,512,768.00	140	$ 1,323,672.00
55	4	$ 929.50	$ 44,616.00	1	$ 11,154.00
60	37	$ 1,014.00	$ 450,216.00	37	$ 450,216.00
70	12	$ 1,262.90	$ 181,857.60	12	$ 181,857.60
80	5	$ 1,534.70	$ 92,082.00	5	$ 92,082.00
90	0	$ 1,829.30	$ -	0	$ -
100	1	$ 2,146.70	$ 25,760.40	1	$ 25,760.40
Total	**1644**		**$ 9,660,310.80**	**1474**	**$ 8,447,308.80**

[7] Refer to Appendix C for a description of the process to estimate occupancy rates after the Rebuild Project.

Moreover, according to Marina management, the only escalator applied to the estimates of future slip fee rental revenues was a "plugged" percentage increase applied to the 2010 slip fee rental revenue baseline figure that ensured net revenues (operating revenues less operating expenditures, debt service, and loans) were raised to the point where the debt ratio met the City's 1.25 times operating expenditure coverage (debt ratio) requirement was satisfied. Further, the "plugged" percentage increase assumed that the Marina's slip fee rental structure could be increased enough to meet the required revenues to satisfy operating expenses and all debt service. However, it is unrealistic to base the financing of a significant marina Rebuild Project on the notion that the Marina can simply increase the slip fee rate structure at any time to meet operational expense and debt service requirements.

The other estimates of smaller portions of future revenues reflected in the pro-forma financial analysis relate largely to rental and concession revenues as well as some miscellaneous fees for towing and other services. There appears to be some consideration as to changes in these revenue categories as the pro-forma reflected that rental and concession revenues would fall significantly in 2011 as a result of the concession revenue related to the Shoreline Marina Marketplace being moved from the Marina Fund 403 to a fund within the City's Community Development Department, the entity that is responsible for administering and managing the related concession contracts.

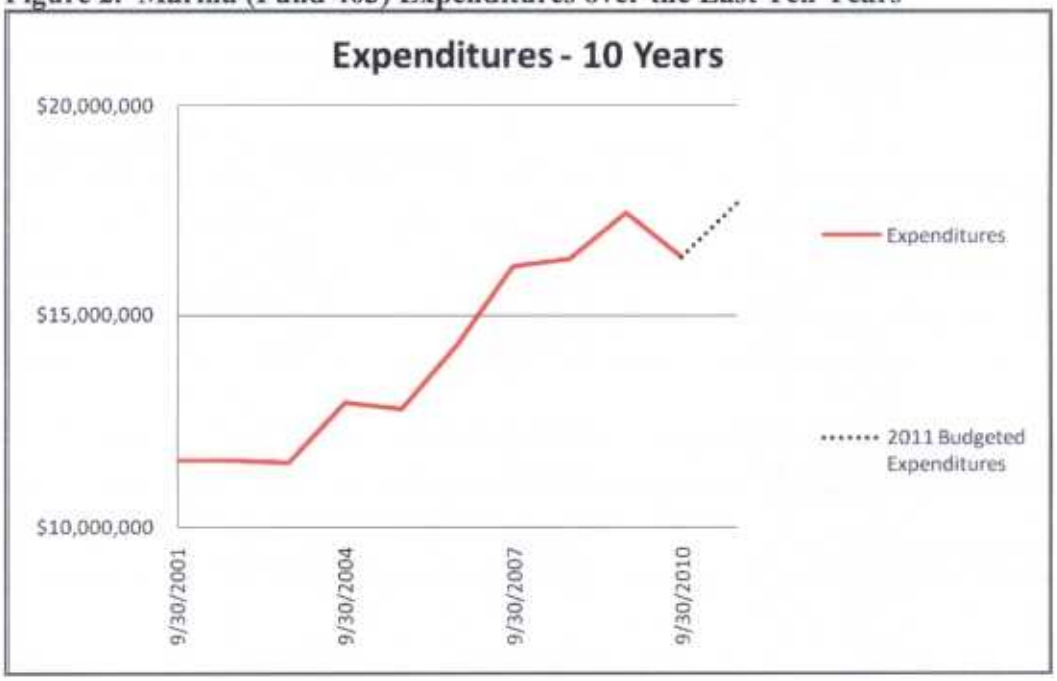
Expense Estimates

As discussed previously, Marina fee revenues will be the only source of monies available to cover operational expenses as well as service debt requirements, including debt associated with the Rebuild Project. As such, it is critical for the Marina to not only accurately project revenues that will be available to cover Marina expenses, but it is also important that future expenditures are carefully estimated to adequately calculate the Marina's debt capacity prior to undertaking the Rebuild Project. However, when projecting future Fund 403 expenditures, the pro-forma financial analysis did not consider or involve:

- Cost escalators that are specific to Marina operational expenditures
- Expected decrease in maintenance costs after the rebuild
- Increase in debt service requirements related to issuing approximately $50 million in municipal revenue bonds that would be needed to fully construct and complete the Rebuild Project.

Overall, Fund 403 operational expenditures have generally increased over the last ten years, averaging about a four percent increase annually, with a slight decrease in 2010, as shown on Figure 2. Another increase is expected during Fiscal Year 2011 according to the approved budget.

Figure 2. Marina (Fund 403) Expenditures over the Last Ten Years



As shown in Table 6, in 2010, total operational expenditures were $16,397,539 in 2010 and are budgeted at $17,701,743 for 2011—as such, more than $1,304.204 additional expenditures are expected during 2011 compared to 2010. The anticipated seven-percent increase in 2011 is largely a result of increases in expenses related to operations/administration, police, utilities, and debt service requirements.

Table 6. Comparison of Marina (Fund 403) Actual Operational Expenses in Fiscal Year 2010 and Budgeted Expenses for 2011

Expense Category	2010 Actuals	2011 Approved Budget	2010 Actual VS 2011 Budget
Operations/Administration	$ 3,064,518	$ 3,736,747	$ 672,229
Maintenance	$ 4,838,872	$ 4,588,045	$ (250,827)
Land Security (Police)	$ 2,585,356	$ 2,687,292	$ 101,936
Water Security (Fire)	$ 1,612,195	$ 1,639,164	$ 26,969
Utilities	$ 789,413	$ 888,425	$ 99,012
General City Overhead	$ 518,560	$ 563,541	$ 44,981
Operational Expenses Sub Total	$ 13,408,914	$ 14,103,214	$ 694,300
Debt Service	$ 2,988,686	$ 3,598,530	$ 609,844
Total Operational Expenses	**$ 16,397,600**	**$ 17,701,744**	**$ 1,304,144**

In addition to projecting future revenues as described in the previous section, another step in Marina management's process to develop the pro-forma financial analysis of Fund 403's debt capacity was to estimate future Marina expenditures. According to the pro-forma financial analysis provided to us for review, Marina management estimated expenditures to be $13,670,000 in 2011 and this figure was used as the baseline for operational expenditures 30 plus years forward. The 2011 approved budgeted expenditures were $14,103,214—a difference of just over $400,000 and the result of Marina management estimating overhead to be less than the approved budget in 2011.

According to Marina management, the City's Financial Management Department provided cost accelerators to be used in the pro-forma financial analysis to forecast future expenditures. Utilizing the cost accelerators resulted in a projected average increase in expenditures of about four percent annually—with specific increases of three percent for operations, administration, maintenance, utilities, and overhead; five percent for fire and police. However, the four percent average annual increase appears reasonable given that the Marina's actual average increase in expenditures has been about four percent annually as discussed earlier, the cost accelerators provided by the City's Financial Management Department were not specific to the Marina's circumstances and did not consider likely reductions in certain operational costs once the Rebuild Project is complete, such as maintenance expenses.

For example, 2010 maintenance costs totaled $4,838,871[8] and included services provided by the City to all three marinas, including maintenance of the docks, facilities, restrooms as well as landscaping and custodial services. However, this figure is expected to decrease after the completion of the Rebuild Project. Specifically, according to Marina management, the City required a 10-year warranty to be included in the bid for the Rebuild Project. The contractor selected for the rehabilitation project stated that if they were required to warranty the dock system then they wanted to provide the maintenance, which was included at no-charge within their cost proposal. During contract negotiations, Marina management requested a quote for the contractor to provide dock maintenance for an additional 30 years. The contractor provided a quote of $1,230,000 ($41,000 per year), which was accepted and included as part of the final cost estimate and scope of work, as reflected in Table 1 earlier in this section. Thus, this portion of future Marina maintenance will be funded via project funding (loans, revenue bonds, and fund balance transfer) and will reduce corresponding operational expenditures. However, according to Marina management, they estimate that Marina maintenance will fall by $1,000,000 a year after the rehabilitation is complete. However, this reduction was not included in the pro-forma financial analysis prepared by Marina management.

Additionally, we found that the pro-forma financial analysis considered the debt requirements related to existing loans associated with the $35 million Downtown Marinas refurbishment project that was completed in 2006 as well as additional loans that will be used as partial funding for the Rebuild Project. However, it did not consider future debt service requirements related to issuing nearly $50 million in municipal revenue bonds for the Rebuild Project even though a potential bond issuance will cover more than half of the current estimated costs to complete the project.

Recommendations

In order for the City to determine the viability of the Rebuild Project and determine the Marina's debt capacity, the City's Treasurer, Financial Management Department, and Marina management should:

1. Ensure a pro-forma financial analysis is developed that provides decision makers with sufficient and complete financial analysis and assumptions, including changes in future slip occupancy and corresponding revenue, changes in operating costs, and increases in debt service requirements related to the potential issuance of revenue bonds.
2. Upon completion of recommendation #1, consider requesting additional design proposals with varying levels of repair, rebuild, and cost so that the City can select the option that best meets the City's needs and the Marina's debt capacity.
3. Provide a status report to the City Council and City Auditor as to progress of the Rebuild Project and efforts to address the issues noted throughout this report within six months from the receipt and filing date.

[8] The Marina does not split out their costs between the three marinas so we were unable to identify the amount of maintenance costs attributable to Alamitos Bay Marina.

Section II – Marina Administrative Operations

As part of our review of the Alamitos Bay Rehabilitation Project (Rebuild Project), we assessed the effect of the Rebuild Project on related Marina administrative activities and operations to obtain a reasonable assurance that management of slip inventory and associated revenues are appropriate and generate the desired benefits for the City of Long Beach and boat owners. We reviewed the following issues:

- What impact the Rebuild Project had on overall slip inventory
- Slip inventory rates and life of vacancies
- Historic slip fee rate increases and whether City Council approval was received
- Methodology used to assess fees on concessionaire facility improvements

Following are the results of our analyses and assessments of these issues.

Rebuild Project Impact of Slip Inventory

As discussed in Section 1 of this report, after the completion of the Rebuild Project the total number of permanent slips will be reduced by 352 slips—from about 1,996 total slips as of September 2010 to an estimated 1,644 total slips—with most of the losses coming from a reduction in the number of smaller slip sizes. While the number of permanent slips at the Alamitos Bay Marina was anticipated to be reduced, the number of occupied slips versus the number of proposed slips after the Rebuild Project was not significantly different. In March 2005, the number of *occupied* slips at the Alamitos Bay Marina was about 1,700 compared to the proposed 1,644 slips.

Although the total number of occupied slips would not change dramatically, changes in the Alamitos Bay Marina's slip mix—number of slips in various lengths—are anticipated after the Rebuild Project, which could potentially impact the amount of slip revenues generated. According to Marina management, the Marina Advisory Committee approved changes to the Alamitos Bay Marina's slip mix—number of slips in various lengths—as part of the Rebuild Project. These changes would dramatically reduce the number of smaller permanent slips while increasing the number of larger permanent slips, also reflected on Table 5 in Section I of this report. Marina management asserts the changes are needed to meet the public's current and future anticipated recreational boating needs and expects the changes will result in low vacancy rates. Additionally, they assert that the demand for smaller slips is decreasing while the demand for larger slips is increasing as demonstrated by the increase in the average length of new boats being added to the Marina.

As a result, in the mid 2000s, Marina management implemented a strategy to begin transitioning some permanent long-term lease slips in the Alamitos Bay Marina to temporary, month-to-month rental assignments in anticipation of the loss of 352 slips per the proposed slip mix plan after the completion of the Rebuild Project, particularly the reduction in the number of smaller slips. This decision was based on the fact that the Rebuild Project's design reduced the number of smaller slips (e.g. for 20 foot boats) which would impact the Marina's ability to offer long-term slip

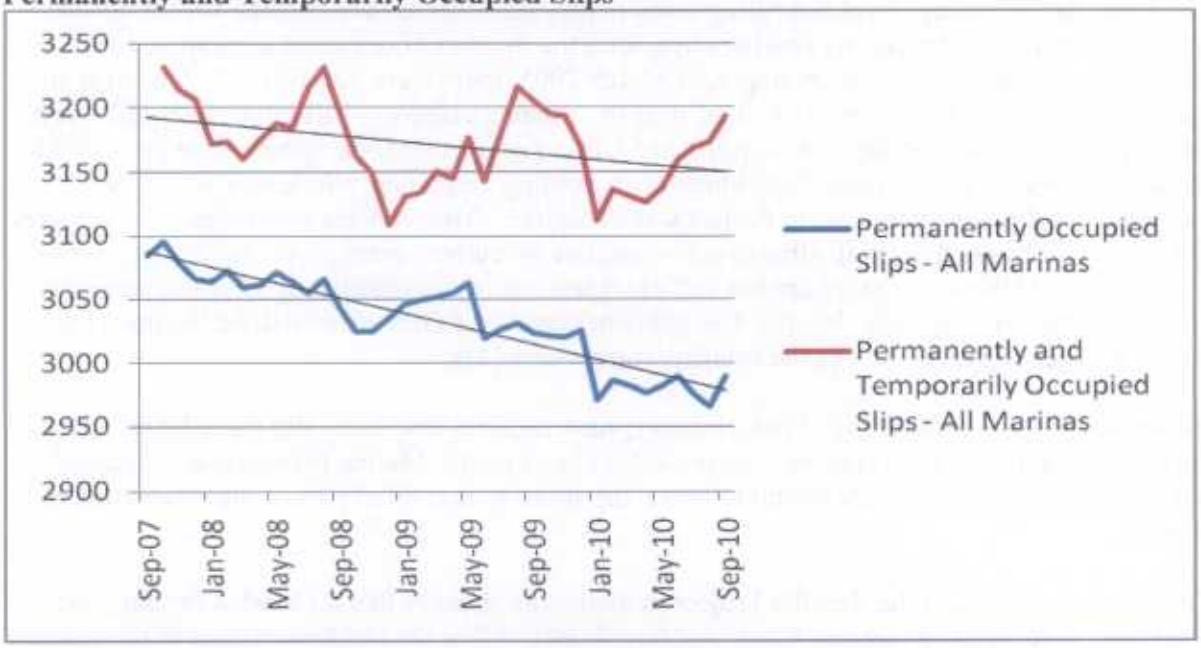
leases to smaller boat owners. For example, after the completion of the Rebuild Project, there will be 284 fewer 20-foot slips. To accommodate the fewer slips, the transitioning strategy involved Marina management not filling some permanent slips as they became vacant due to lease cancellations, particularly smaller slips, until the number of occupied slips equaled the number of proposed slips. For example, in March 2005, there were 326 filled 20-foot slips and by November 2010, there were 189 filled slips in the same category—after the Rebuild Project there will be 161 20-foot slips. According to Marina management, the number one priority with the strategy was to ensure those individuals with existing permanent slip leases would be guaranteed a slip once the Rebuild Project was complete. Also, Marina management anticipates that there will be enough small slips to accommodate all current users given the current rate of cancellation. However, if there are not sufficient smaller slips immediately after the rebuild to accommodate existing users, Marina management stated that these users will be temporarily leased a larger slip at the rate of the smaller, correct-sized slip.

Additionally, the Rebuild Project construction phase requires that some slip users be relocated during various parts of the construction project and as a result, Marina management included holding some permanent slips vacant to move slip users as needed as part of their transitioning strategy.

To determine the effect the Rebuild Project transitioning strategy had on Marina funding, we analyzed the revenues generated from long-term leases before the implementation of the strategy of transitioning to short-term rentals, against the revenues resulting after implementation. Generally, the Marina's slip revenues have remained steady irrespective of whether they were generated via long-term or short-term leases as the use of temporary slip assignments generated additional revenues to help offset the revenue reduction.

Specifically, to mitigate some of the potential revenue loss resulting from the reduction of the number of permanently occupied slips, Marina management began allowing the use of temporary slip assignments until the completion of the Rebuild Project. According to Marina management, temporary slip assignments are month-to-month rentals that users pay the standard slip rental fee plus an additional 20 percent premium. While the total number of permanently occupied slips at all three marinas combined has declined over the last several years (refer to Appendix A), Figure 3 reflects that after including temporary assignments, the occupancy rates have also continued to decline, but to a lesser degree.

Figure 3. Comparison of Permanently Occupied Slips Against a Combination of Permanently and Temporarily Occupied Slips



Because of the use of temporary slip assignments and the associated 20 percent slip fee premium attached to these leases, Marina management was not only able to keep slip revenues relatively stable over the last several years, but was able to grow slip revenues even though their Rebuild Project transitioning strategy resulted in the reduction of permanent slip occupancy rates. Figure 1 in Section I of this report reflects the increase in slip revenue over the last several years.

Slip Inventory Vacancies

To review slip inventory vacancies, we conducted several tests including:

- Reviewing slip occupancy, vacancy and waiting lists for the period 2005 to 2010.
- Conducting a visual inventory of about 800 slips at the Alamitos Bay Marina (approximately 60 percent of total slips) to determine if the slips were vacant or occupied.
- Comparing our physical observations of slip occupancy to the Alamitos Bay Marina's current permanent and temporary slip permit inventory records and notes from a recent regular (bi-monthly) inventory inspection by Marina employees.
- Estimating total Marina slip revenue per occupancy rates at all three marinas and compared against actual revenues received (See Section I of this report).
- Assessing the Marina's controls over invoicing, revenue collection and cash handling processes.

Generally, we found that the Marina's slip inventory and vacancy records tracked, for the most part, with our observations of occupancy; estimates of slip revenues based on occupancy rates

reasonably agreed with slip revenues recorded; and controls over most Marina revenue were sufficient as revenue collection processes were generally automated and handled by an external department.

Specifically, of the 800 slips we observed, we identified issues with only 13 slips (after excluding occupancy discrepancies resulting from timing differences between the date of our observation and the date of the inventory listing as well as occupancy discrepancies resulting from unmarked vessels that appeared to be illegally parked without Marina management's knowledge or consent while the boat owners utilized Marina retail establishments.) We found the following general categories of issues involving 13 slips:

- Slips appropriately listed as occupied per inventory records, but visual observation reflected vessel names or CF numbers (boat registration) that did not match inventory records. (6 slips)
- Vessels occupying vacant slips (slips without an active permit). (4 slips)
- Slip double booked with both a permanent and temporary permit issued to two separate vessels causing a domino effect of four displaced vessels in the wrong three slips. (3 slips)

Due to the small number of issues related to our observations of slip occupancy, it appears that occupancy information reflected in the Marina's inventory records is reliable and it is unlikely that the issues uncovered have a significant impact on Marina revenue realization or expectations. Further, according to the Marina, these are typical issues that arise as part of their regular bi-monthly inventory process of more than 2,000 slips (approximately 1,500 permanently and temporarily occupied slips) and they are working to identify the cause of the discrepancies.

Additionally, we also found that published occupancy rates agree with slip inventory information and fairly estimated 2010 slip rental fee revenue when we compared estimates of slip revenue based solely on occupancy rates against actual revenues received. Specifically, the Marina's published slip mix occupancy rates as of September 30, 2010 are reflected on Table 7.

Table 7. September 30, 2010 Marina Slip Occupancy Rates

	20-feet	25-feet	30-feet	35-feet	40-feet	45-feet	50-feet	55-feet	60-feet	70-feet	80-feet[9]	**Total**
All Three Marinas												
Permanently Occupied Slips	190	243	829	643	627	229	157	2	47	12	11	2,990
Temporarily Occupied Slips	52	72	39	6	11	8	5	0	4	4	3	204
Total Occupancy	242	315	868	649	638	237	162	2	51	16	14	3,194

Based on the September 30, 2010 published slip occupancy rates (3,194 occupied slips), the three marinas should have generated about $18,092,095 in 2010 slip rental fee revenues, as reflected in Table 8, which is close to both the 2010 budgeted and actual slip fee revenues

[9] There is one additional temporary assignment of a 100 foot vessel.

received (reflected in Table 4) once additional monies related to late penalties, 20 percent surcharge on temporary permits, and "live-aboard" fees are considered and included.

Table 8. Estimates of Fiscal Year 2010 Marina Slip Revenue Based on Occupancy rates

Slip Size	Total Number of Slips as of Sept 30, 2010	2010 Slip Fee Rates (Monthly)	2010 Slip Revenue at 100% capacity	Total Number of Slips Occupied (Permanent and Temporary) as of September 30, 2010	Annual Slip Rental Fee Revenue Estimated Based on Slip Occupancy as of September 30, 2010
Alamitos					
20	445	$ 164.45	$ 878,163.00	242	$ 477,562.80
25	369	$ 256.95	$ 1,137,774.60	306	$ 943,520.40
30	429	$ 370.00	$ 1,904,760.00	348	$ 1,545,120.00
35	238	$ 471.60	$ 1,346,889.60	228	$ 1,290,297.60
40	278	$ 584.65	$ 1,950,392.40	245	$ 1,718,871.00
45	94	$ 688.55	$ 776,684.40	85	$ 702,321.00
50	90	$ 787.90	$ 850,932.00	87	$ 822,567.60
55	1	$ 929.50	$ 11,154.00	1	$ 11,154.00
60	21	$ 1,014.00	$ 255,528.00	19	$ 231,192.00
70	15	$ 1,262.90	$ 227,322.00	16	$ 242,476.80
80	16	$ 1,534.70	$ 294,662.40	11	$ 202,580.40
90	0	$ 1,829.30	$ -	0	$ -
100	0	$ 2,146.70	$ -	1	$ 25,760.40
Total	**1996**		**$ 9,634,262.40**	**1589**	**$ 8,213,424.00**
Downtown					
25	9	$ 256.95	$ 27,750.60	9	$ 27,750.60
30	548	$ 370.00	$ 2,433,120.00	520	$ 2,308,800.00
35	449	$ 471.60	$ 2,540,980.80	421	$ 2,382,523.20
40	406	$ 584.65	$ 2,848,414.80	393	$ 2,757,209.40
45	154	$ 688.55	$ 1,272,440.40	152	$ 1,255,915.20
50	77	$ 787.90	$ 728,019.60	75	$ 709,110.00
55	1	$ 929.50	$ 11,154.00	1	$ 11,154.00
60	35	$ 1,014.00	$ 425,880.00	32	$ 389,376.00
80	2	$ 1,534.70	$ 36,832.80	2	$ 36,832.80
Total	**1681**		**$ 10,324,593.00**	**1605**	**$ 9,878,671.20**
Grand Total	**3677**		**$ 19,958,855.40**	**3194**	**$ 18,092,095.20**

Lastly, as part of our review of slip inventories, we conducted a high-level cursory review of the Marina's controls over invoicing, revenue collection, and cash handling processes. While we found that aspects of the Marina's revenue collection process was automated and executed by an external City department, we found controls over the revenue collection processes handled by Marina staff at the Alamitos Bay Marina office lacking. Specifically, we were told that the City of Long Beach's Financial Management Department's accounting division[10] handles the collection of the Marina's permanent slip permit fees, which accounts for most of Marina revenue. As described earlier in the report, the vast majority (90 percent) of the Marina's

[10] We did not review the Financial Management Department's controls over revenue collection.

revenue source is from slip permit fees—the bulk of which (93 percent) are associated with permanent slip occupancies rather than temporary slip occupancies. The Financial Management Department's accounting division is responsible for generating and sending monthly invoices (20th of each month) to the permit holders of permanent slips. This division also directly receives and processes the corresponding payments into the City's financial system. Marina staff do not participate in this process as it is all handled via an automatic system by the City's accounting division staff.

While the collection of permanent slip fees exhibits some controls as the process is automated, we noted weak cash handling practices at the Alamitos Bay Marina office[11] related to other types of fee monies collected over the counter. Specifically, Marina staff share a single cash drawer, which according to Marina management has been the collection process for the last 30 years at this office. Marina management also stated this control weakness is mitigated by the fact that all staff have separate system identification and a detailed reconciliation between cash collected and system receipts is performed daily; however, the scope of our high-level review of cash handling processes did not include testing reconciliations. Additionally, they noted that typically very little cash is collected at the Marina office usually only involving guest mooring fees, keys and other small deposits. However, for the last several years as well as the next several years into the future, the Alamitos Bay Marina office staff collects a significant amount of fees related to temporary occupancy permits. In fact, according to Marina management, the monthly deposits of monies collected by Alamitos Bay Marina office staff can be as much as $40,000 a month, or more. Whether Marina staff collect small or large sums of monies over the counter at the office, having multiple individuals sharing a single cash drawer increases the risk that money can be lost or stolen. Although the temporary slip permit program will be discontinued after the Rebuild Project is complete and large sums of monies related to temporary occupancy fees no longer collected, Marina management should improve and maintain sufficient controls over cash handling processes that occur in the office.

Historic Slip Fee Rate Increases

We reviewed all slip fee rate increases since 2004 and found that each was appropriately approved by the Long Beach City Council. Marina management told us that pricing of slips are based upon several factors, including operating costs, debt service costs, future capital needs, and comparative rates in other marinas within the region. Our review of the Marina's slip fee history reveals that the City Council approves the Marina's slip rates annually through the budget process and slip fee rates did not increase between 1992 and 2004, but most slip fees have increased each year since, except 2010 as no changes were sought. Table 9 reflects a comparison of slip fees in 2004 versus 2010.

[11] We did not review specific cash handling practices at either the Rainbow Marina or Shoreline Marina.

Table 9. Comparison of Slip Fees in 2004 versus 2010

Slip Size	2004	2010	Percentage Change
Alamitos Bay Marina			
20	$ 170.00	$ 164.45	-3%
25	$ 212.50	$ 256.95	21%
30	$ 279.00	$ 370.00	33%
35	$ 360.50	$ 471.60	31%
40	$ 412.00	$ 584.65	42%
45	$ 510.75	$ 688.55	35%
50	$ 620.00	$ 787.90	27%
60	$ 744.00	$ 1,014.00	36%
70	$ 868.00	$ 1,262.90	45%
80	$ 992.00	$ 1,534.70	55%
90	$ 1,116.00	$ 1,829.30	64%
100	$ 1,240.00	$ 2,146.70	73%
Rainbow and Shoreline Marinas			
25	$ 206.50	$ 256.95	24%
30	$ 264.00	$ 370.00	40%
35	$ 308.00	$ 471.60	53%
40	$ 360.00	$ 584.65	62%
45	$ 432.00	$ 688.55	59%
50	$ 490.00	$ 787.90	61%
60	$ 588.00	$ 1,014.00	72%

As part of the 2002 budget, the City Council adopted an annual Consumer Price Index (CPI) adjustment for Marina slip fees, allowing slip fees to automatically increase every October based on the CPI from the previous year. Also in 2002, the Marine Advisory Committee (MAC) worked with Marina management to develop a "Marina Slip Pricing Strategy", which is a market-based approach. As a result, in 2003, the City Council suspended the automatic CPI adjustment for Fiscal Year 2003 and adopted the market-based approach instead, which increased some rates by 25 percent. Subsequently, slip fees were CPI adjusted every year since 2004.

Further, in 2006, the MAC replaced the market-based pricing strategy with a cost recovery approach to slip fee pricing, which included pricing all slips the same regardless of condition or location of the slip. As a result, the Rainbow and Shoreline Marina slip fees were increased in 2008 to match the rates charged at the Alamitos Bay Marina. Also, as part of the cost-recovery approach to pricing, the MAC and Marina management also reworked the slip fee pricing structure methodology to make slip fees more equitable to all size vessels and reflect that smaller

boats use less utilities and Marina "real estate" than larger boats. Historically, the Marina used a simple flat slip rate based on slip length. The new pricing structure developed and currently in place is based on the overall size of the slip (length and width) and considers the following:

- Determines the annual costs to be recovered through slip fees;
- Determines the total rentable square slip feet in the Marina utilizing a "standard" slip dimension as recommended by the State Department of Boating and Waterways;
- Divides the slip revenue needed to recover by the square rentable fee to establish a square-foot rate; and
- Applies the square foot rate to the standard slip sizes to determine a rate for each standard slip size.

According to Marina management, the new slip fee pricing structure should be re-evaluated annually and rates adjusted as necessary to recover costs for the upcoming fiscal year.

Also, according to a March 2010 survey conducted by Marina management, Long Beach Marina rates were still below market. Specifically, Marina management compared the Long Beach Marinas' per slip rate to seven other Southern California marinas: King Harbor, Port Royal, Portofino Hotel, Cabrillo, Peter's Landing, Dana Point, and Dana West. The results concluded that Long Beach Marina's slip rates were lower, on average, in every slip length category, ranging from an average of .5 percent lower for 80-foot slips to 17 percent lower for slips under 29 feet. As such, even with recent increases in slip fees, the Marina's fee structure appears competitive within the California market.

Concessionaire Facility Improvements

Most of the larger and longer-term concession agreements within the Marina are executed and managed by the City's Department of Community Development Property Services. These types of agreements generally include retail establishments, restaurants, bars, entertainment venues, and office space and accounts for about 86 percent of all concession monies that the Marina receives (budgeted to generate about $1.8 million in 2010). Consequently, the Marina is not responsible for most lease negotiations, payments, or improvements. Currently, the Marina is responsible for 14 lease agreements, which are generally small concession leases and are reflected on Table 10.

Table 10. 2010 Concession Lease Agreements Administered by the Marina

Leasee	Description	2010 Budgeted Revenue
Alamitos Bay Partnership, LLC	Rental of Boat Slips	$50,000
Boat Rentals of America, Inc.	Recreational water craft rentals	$5,500
Bolder Group, Inc.	Fuel Dock (Shoreline Marina)	$0 (on hold)
Bolder Group, Inc.	Fuel Dock (Alamitos Bay Marina)	$26,677
Conte Productions	Use of 40 Parking Spaces	$100
Dadson Washer Service	Washer and Dryer Services	$7,000
Girl Scouts of Greater Los Angeles	Girl Scout Activites	$1
Harbor Area Farmers Market	Certfied Farmers Market	$10,000
Indel Engineering, Inc.	Marine Service and Repair Yard	$142,000
Little Ships Fleet Yacht Club	Storage Shed Services	$780
Long Beach Area Council of Boy Scourts of America	Boy Scout Activities	$1
Navy Yacht Club - Long Beach	Operation of a Yacht Club Office	$7,884
OWS Holdings, LLC.	Recreational water craft rentals	$5,700
Steven H. Davis	Leased Property	$973.56
Total		**$256,617**

Based upon concerns raised by Marina occupants and stakeholders, we reviewed the Marina's process to fund tenant improvements. Our review found that two of the leases that the Marina is responsible for administering that relate to two fuel docks have not clearly identified the party responsible for paying costs associated with constructing major improvements, such as the replacement or modification of underground storage tanks. Specifically, the City of Long Beach entered into two lease agreements with an outside company to operate two fuel depots (one at Shoreline Marina and the other at the Alamitos Bay Marina), which includes the sale of gasoline and diesel fuel, oil, and batteries as well as convenience items such as soft drinks and tobacco products. One of the lease agreements executed in September 1999 related to the Shoreline Marina fuel dock states that immediately upon commencement of the contract, the:

- Tenant shall, at its cost, upgrade fuel pumps to increase throughput volume on one diesel dispenser, construct and operate a chandlery building; and furnish and equip all operational and servicing equipment necessary for the operation of a marine service station (cash register, ice machine, etc.).
- Landlord shall, at its cost, have completed construction of certain improvements related to tank containment and leak detection systems and replacement of all product lines (from the fuel tanks to dispensers).

While the lease agreement states that the tenant is responsible for maintaining the improvements constructed by the City, the lease agreement does not address which party is responsible for paying the costs associated with future improvements, particularly major capital improvements. Additionally, the lease agreement for the fuel dock at the Alamitos Bay Marina, executed in July 2003 states that in the event that the replacement or modification of underground storage tanks is needed, the City and tenant shall meet and confer, and negotiate the allocation of responsibility for the associated costs. Based on conversations with Marina management, it appears that they do not believe the leasee should bear the full responsibility of paying all costs of the improvements as the City owns the fuel docks, City departments (police and fire) depend on services provided by the fuel dock, and the leasee is simply a small operator with a relatively short-term lease (one 10-year and the other 6-year extended an additional five years). As a result, there has been uncertainty whether the responsibility to pay for improvements falls to the City, leasee, Marina users, or a combination and Marina management should ensure that future lease agreements clearly detail responsibilities related to major improvements.

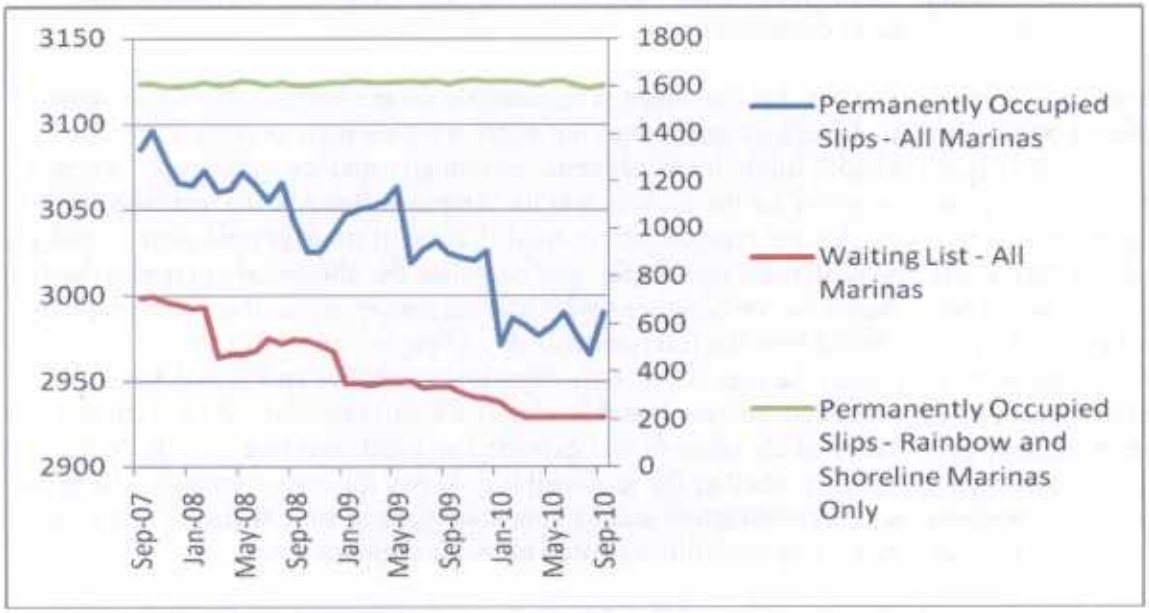
Because it is unclear which party is responsible for paying for improvements, the Shoreline Marina fuel dock has been closed for about three years due to a lack of funding for improvements needed for it to comply with new state regulations for underground fuel tanks. In mid-2010, the City Council authorized the removal of the tanks at a cost of about $300,000, which was paid for via Marina fund reserves. According to Marina management, the cost to complete the repair at the Rainbow Marina fuel dock is roughly $1.6 million (media reports suggest $2.4 million is needed to make improvements at both the Rainbow and Alamitos Bay fuel docks) and the source of the funding for the improvements has not been resolved. Several options have been circulated, including not reopening the fuel dock, raising slip fees, or implementing a monthly surcharge per slip.

Recommendations

In order to improve certain administrative operations, the Marina should:

4. Consider redirecting the collection of temporary slip permit fees to the City's Financial Management Department.
5. Ensure all staff collecting monies over the counter at the Marina office have separate cash drawers and are able to have sole control over the monies they collect.
6. Continue working with the City officials to resolve funding issues related to the Shoreline Marina fuel dock and ensure all future concession contracts fully detail responsibilities for funding major improvements.

Appendix A – Marina Permanent Slip Occupancy and Waiting List Rates—September 2007 through September 2010[12]



[12] These occupancy numbers do not include temporary assignments at the Alamitos Bay Marina during the construction phase of the project.

Appendix B – Comparison of the Alamitos Bay Marina Slip Mix as of September 30, 2010 and Proposed Slip Mix after the Rebuild Project

	20-feet	25-feet	30-feet	35-feet	40-feet	45-feet	50-feet	55-feet	60-feet	70-feet	80-feet[13]	**Total**
Alamitos Bay Marina												
Slip Mix at September 30, 2010	445	369	429	238	278	94	90	1	21	15	16	1,996
Slip Mix Proposed After Rebuild Project	161	238	246	307	350	123	160	4	37	12	6	1,644

[13] An additional 100 foot flip is proposed within the new slip configuration.

Appendix C – Comparison of the Alamitos Bay Marina Occupancy Rates as of September 30, 2010 and Estimated Occupancy Rate after the Rebuild Project

	20-feet	25-feet	30-feet	35-feet	40-feet	45-feet	50-feet	55-feet	60-feet	70-feet	80-feet[3]	**Total**
Alamitos Bay Marina												
Occupancy at September 30, 2010	190	234	309	222	234	77	82	1	15	12	9	1,385
Estimated Occupancy After Rebuild Project (Note 1)	161	238	246	264	260	109	140	1	37	12	6	1,474

Note 1: To estimate the occupancy of the Alamitos Bay Marina after the Rebuild Project, we:

- Assumed slips at a certain size would be at full capacity after the rehabilitation if the existing occupancy rate was equal to or greater than the proposed new number of slips. For example, at September 30, 2010, the occupancy rate for 20-foot slips was 190, but after the rehabilitation there will only be 161 slips of this size; thus, the estimated occupancy rate after the rehabilitation is 161, as shown in the table above.
- Conversely, we assumed slips at a certain size would be at the less than full capacity after the rebuild if the existing occupancy rate was less than the proposed new number of slips. For example, at September 30, 2010, the occupancy rate for 35-foot slips was 222, but after the rehabilitation there will be 307 slips of this size. In this situation, we also added temporary assignments and waiting lists to the existing capacity to estimate the occupancy rate after the rehabilitation until the proposed new number of slips was reached. In September 2010, there were 6 temporary assignments and 36 on the waiting list for 35-foot slips; thus, we added 42 to the 222 existing capacity to estimate the occupancy after the rehabilitation to be 264, as shown in the table above.

Appendix D – Management's Response to Review

CITY OF LONG BEACH

DEPARTMENT OF PARKS, RECREATION & MARINE

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March 22, 2011

Laura L. Doud
City Auditor
333 West Ocean Blvd.
8th Floor
Long Beach, CA 90802

Dear Ms. Doud:

The Department of Parks, Recreation and Marine (PRM) and the Financial Management Department thank the City Auditor's Office for reviewing the City's Marina Fund with regards to its ability to sustain financially the Alamitos Bay Rebuild project, and to evaluate further the Marina Bureau's management of the revenue associated with its boat slip inventory.

The Departments agree that the preliminary nature of the bond financing analysis model would preclude the City Auditor from concluding on the viability of the Alamitos Bay Marina rebuild project, and that, at this time, it is premature to contemplate a bond issuance.

Concurrent with the conduct of the City Auditor's review, the Financial Management Department and PRM's Marine Bureau continued to refine the analysis and business planning. Progress was also achieved with the January 13, 2011 action by the California Coastal Commission approving the Coastal Development Permit to proceed with the marina rebuild, and the March 2, 2011 action of the California Department of Boating and Waterways approving a second loan for $9.97 million completing the financing to rebuild Basin 4, conditioned upon changes in the Long Beach Yacht Club Lease, which are currently being negotiated.

The Financial Management Department and PRM's Marine Bureau continue to refine the financial analysis and sensitivity assumptions such as slip fees, occupancy ratios and slip operating and maintenance expenses. The result of this analysis will determine the debt capacity of the Marina Fund which will, in turn, determine the final scope of the project.

The project bid by the Parks, Recreation and Marine Department was bid as a design-build project. To clarify this process, a 25-30% plan is put to bid, and the successful contractor subsequently works with the City to refine and complete the design, and then builds to the design. It is understood under this structure that project costs will change due to the final design process. The design-build process eliminates most costly change orders, and eliminates conflicts between the design engineer and the contractor.

The development and utilization of the conceptual design enabled the City to identify a project cost estimate, which is more refined than an estimate developed by the City or a design engineer. In addition, the conceptual design was necessary for the CEQA review process. Until the design is complete, changes can be made to reduce project costs, which is a benefit of the design-build process. In addition, although the entire marina project was bid, it has been made clear that the project will be divided into phases for funding and construction purposes.

Due to the preliminary state of the financial analysis, investment banking services and credit rating agencies have yet to be engaged, and therefore, professional opinions have not yet been rendered. The Alamitos Bay Marina Rebuild Project is not subject to any particular deadline. Only after fully developing the Marina financial analysis will the Financial Management Department engage rating agencies for their evaluation, and investment bankers to sell the proposed bonds.

In response to the Auditor's recommendations:

1. Ensure a pro-forma financial analysis is developed that provides makers with sufficient and complete financial analysis and assumptions, including changes in future slip occupancy and corresponding revenue, changes in operating costs, and increases in debt service requirements related to the potential issuance of revenue bonds.

   MANAGEMENT'S RESPONSE:

   Staff agrees with the recommendation. The recommendation has always been the goal of the Financial Management Department and the Department of Parks, Recreation and Marine. No proposed financing will be presented to rating agencies, or brought forth to City Council for authorization prior to full documentation and completion of the financial analysis that demonstrates the Marina Fund's ability to support an appropriately sized construction project in a fiscally responsible manner.

2. Upon completion of recommendation #1, consider requesting additional design proposals with varying levels of repair, rebuild, and cost so that the City can select the option that best meets the City's needs and Marina's debt capacity.

   MANAGEMENT'S RESPONSE:

   Staff agrees with the recommendation. If revenue and expense changes cannot sufficiently cover the requisite debt needed to complete the project, changes in the marina design or project scope will be considered.

3. Provide a status report to the City Council and City Auditor as to progress of the Rebuild Project and efforts to address the issues noted throughout this report within six months from the receipt and filling date.

   MANAGEMENT'S RESPONSE:

   Staff agrees with the recommendation. The Department of Parks, Recreation and Marine and the Financial Management Department will offer regular briefings for City Council Members and the City Auditor.

4. Consider redirecting the collection of temporary slip fees to the City's Financial Management Department.

   MANAGEMENT'S RESPONSE:

   Staff agrees that securing negotiable items limits exposure to potential loss. The Financial Management Department, in conjunction with the Department of Parks, Recreation and Marine, will develop cash handing procedures and/or compensating controls to secure temporary occupancy fees and establish a Memorandum of Understanding with the Marine Bureau for those services.

5. Ensure all staff collecting monies over the counter at the Marina Office have separate cash drawers and are able to have sole control at the monies they collect.

   MANAGEMENT'S RESPONSE:

   See response to Recommendation 4.

6. Continue working with City officials to resolve funding issues related to the Shoreline Marina fuel dock and ensure all future concession contracts fully detail responsibilities for funding major improvements.

   MANAGEMENT'S RESPONSE:

   Staff agrees with the recommendation.

If you have any further questions, please feel free to contact me.

Sincerely,

George Chapjian
Director
Parks, Recreation and Marine

David Nakamoto
Acting Director
Financial Management

GC:MS:rb
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cc: Mark Sandoval, Manager, Marine Bureau