VI. FINANCIAL ANALYSIS

This section evaluates the financial feasibility of the proposed San Francisco Municipal Marina renovation program, based upon available capital funding for the project.

RENOVATION COSTS AND FUNDING SOURCES

RENOVATION COSTS

A detailed breakdown of renovation costs was presented in Section IV. Total project costs, including design and contingency costs, are estimated at approximately $14.5 million in current dollars. Table VI-1 presents these cost estimates arrayed by renovation phase and escalated to reflect budget requirements when required to be used for the project.

TABLE VI-1
BUDGETED PROJECT COSTS
SAN FRANCISCO MARINA-RENOVATION PROGRAM

Redevelopment Phase/Description	Cost Estimates 1997 1)	Budget Estimates 2)	Estimated Year to be Spent
	(In Millions)		
I - Design (design for entire project)	$1.3	$1.4	FY 98-99
II - West Basin Renovation	5.4	6.0	FY 00-01
III - East Basin Renovation	7.8	9.1	FY 01-02
Totals	$14.5	$16.5	

1) See Table IV-4.

2) Escalated at 3 percent per year to estimated expenditure year.

Source: Moffatt & Nichol Engineers, Williams-Kuebelbeck and Associates

The table notes that the renovation program is divided into three phases. Phase I is for design of the entire renovation program. It is assumed that this amount will be available and spent during FY 1998-99. Phase II will be the renovation of the West Basin. It is assumed that this construction will occur over a 15 month period starting in Spring ofFY 1999-00. Phase III will be the renovation of the East Basin. It is assumed that this construction will occur over a 12 month period during FY 2001-02. In essence, the entire proposed renovation program is to be completed and all improvements available to marina users in FY 2002-03 or by July 1,2002, approximately five years from now.

FUNDING SOURCES

The primary sources of funding recommended for this project is a combination of loans from the California Department of Boating and Waterways, under their Small Craft Harbor Program, and Marina reserve funds.

It is recommended that Phase I and Phase II be funded entirely through $7.4 million in State loans; $1.4 million to be received in FY 1998-99 and $6.0 million to be received in FY 1999-00. The Phase III $9.1 million capital cost is to be shared between the State and the City and County, $7.1 million and $2.0 million respectively. State loans are available at 4.5 percent annual interest amortized for 30 years. Table Vl-2 presents the loan and repayment schedules for the $14.5 million in State loans required for the project.

TABLE VI-2
STATE LOANS AND REPAYMENT SCHEDULES
SAN FRANCISCO MARINA - RENOVATION PROGRAM

Renovation Phase/Loan Amount In Millions		Fiscal Year for Loan Receipt	Debt Service (in Thousands) - Per Fiscal Year 1) 99-00	00-01	01-02	02-03	03-04 & Thereafter
I	$1.4	98-99	$43 2)	$86	$86	$86	$86
II	6.0	99-00	--	--	276 3)	368	368
III	7.1 4)	01-02	--	--	--	218 2)	436
Totals	$14.5		$43	$86	$362	$672	$890

1) Based upon a 30 year loan at 4.5 percent interest.
2) One-half drawn down in prior year.
3) Seventy-five percent drawn down in prior year.
4) City and County contributes $2 million from Marina reserve funds.

Source: Williams-Kuebelbeck and Associates

FINANCIAL FEASIBILITY

HISTORIC AND CURRENT INCOME AND EXPENSES

Table Vl-3 presents historic and projected cash flows for the five year period FY 1993-94 through FY 1997-98. This period is presented as the pre-renovation period. It may be noted from the table that the Marina has enjoyed satisfactory net operating incomes over the projection period. It is quite evident that the Marina's primary source of Operating Income is from Berthing Fees. Berthing Fees constituted 92 percent of Operating Income in the last full operating year, (FY 1995-96) and is projected to maintain that same proportion of Operating Income this year (FY 1996-97).

Operating Expenses appear to be well controlled with the majority of variation occurring in the category of Contractual and Other Services. In addition to Operating Expenses, the Marina incurs significant Capital Expenses, a large portion of which goes to maintenance dredging. A focus of the renovation program will be aimed at reducing both Operating and Capital Expenses.

TABLE VI-3
SAN FRANCISCO MARINA
PRE-RENOVATION CASH FLOW HISTORY AND PROJECTIONS
FY 1993-94 THRU FY 1997-98

	Fiscal Years - Figures in Thousands				
	93-94	94-95	95-96	96-97 [1]	97-98
	Actual			Projected	
OPERATING INCOME					
Berthing Fees					
Permanent Berths					
West Basin	$541	$654	$657	$686	$690
Outer West	94	113	114	121	122
East Basin	405	490	493	539	541
Sub-total	1,040	1,257	1,264	1,346	1,353 [2]
Other Berth Related	70	78	76	66	72 [3]
Sub-total Berthing Fees	1,110	1,335	1,340	1,412	1,425
Land Rents, Concessions & Miscellaneous	106	111	122	129	133 [4]
Sub-total Operating Income	1,216	1,446	1,462	1,541	1,558
OPERATING EXPENSES					
Payroll	577	576	589	591	609 [4]
Contractual & Other Services	116	108	251	200	200 [3]
Materials, Supplies & Equipment	48	50	21	37	37 [3]
Overhead	47	50	50	52	54 [4]
Sub-total Operating Expenses	788	784	911	880	900
NET OPERATING INCOME	428	662	551	661	658
Less: DEBT SERVICE	23	23	23	23	23
Less: CAPITAL EXPENSES	317	425	499	438	400
Plus: INTEREST INCOME	69	80	107	86	98 [6]
ANNUAL SURPLUS	$157	$294	$136	$286	$333
Plus: PREVIOUS SURPLUS	....	....	....	$1,671 [5]	$1,957
CUMULATIVE SURPLUS				$1,957	$2,290

1) Projected based upon actual numbers reported for 7/1/96 through 3/31/97.
2) Based upon 95 percent of $1,423,700 capacity under 100 percent occupancy and current berth rental rates.
3) Average for prior 4 years used since annual totals vary.
4) FY 1996-97 totals escalated at 3 percent per year.
5) Cash balance in Marina Yacht Harbor Special Fund, July 1, 1996.
6) Based upon a 5 percent per annum yield on cumulative surplus for prior year.

Source: City and County of San Francisco, Williams-Kuebelbeck & Associates, Inc.

It is also noteworthy that the Marina should have a reserve fund balance of almost $2 million at the close of FY 1996-97. Since the Marina is an Enterprise Fund this surplus is invested and earns interest income annually. Finally, Table Vl-3 shows that the Marina has run surpluses each year during the period shown, after payment of debt service on the existing State loans and Capital Expenses.

BERTH RENTAL INCOME

Permanent berthing fees constitute the largest share (92 percent) of Marina operating income. Table Vl-4 illustrates income which could be generated by the current boat berth inventory based on existing berth rates. The information is presented by sub-basin within the Marina. This presentation method is used since the redevelopment program phasing will be by basin.

Table Vl-4 shows that if the Marina's berths attained 100 percent occupancy, they would produce approximately $1.4 million annually. The table also shows the difference between each basin's berth inventory and income shares. If the table was evaluated further it would show that berths in each sub-basin vary in length with average berth lengths of 40.2, 28.6 and 28.2 feet in the West Basin, Outer West and East Basin respectively. The average slip length for the entire Marina is approximately 33 feet. This variation in berth lengths causes the West Basin to produce 51 percent of berth income with 39 percent of the berth inventory.

TABLE VI-4
BERTH INCOME BASED UPON CURRENT
SIZE DISTRIBUTION AND CURRENT RATES

		Potential Annual Income Per Sub-Basin (In Thousands)							
		West Basin		Outer West		East Basin		Total Marina	
Berth Length in Feet	Rate Per Foot Per Month	Berths	Income	Berths	Income	Berths	Income	Berths	Income
20	$4.81	21	$24.3	1	$1.2	19	$21.9	41	$47.4
25	4.81	36	52.0	35	50.5	153	220.8	224	323.3
30	4.88	41	72.0	32	56.2	103	181.0	176	309.2
35	4.88	23	47.1	0	0.0	68	139.4	91	186.5
40	5.92	72	204.6	1	2.8	0	0.0	73	207.4
45	5.92	20	63.9	5	16.0	0	0.0	25	79.9
50	6.05	17	61.7	0	0.0	0	0.0	17	61.7
60	6.05	25	108.9	0	0.0	0	0.0	25	108.9
90	6.18	10	66.8	0	0.0	0	0.0	10	66.8
110	6.18	4	32.6	0	0.0	0	0.0	4	32.6
		269	$733.9	74	$126.7	343	$563.1	686	$1,423.7
Percentage Per Basin		39%	51%	11%	9%	50%	40%	100%	100%

Source: City and County of San Francisco, Williams-Kuebelbeck & Associates, Inc.

Future changes in the Marina's berth income production due to the proposed redevelopment program can be caused by modifying the berth inventory or changing berth rates. Since berth income is so important to the Marina this is a key consideration of this financial feasibility analysis.

Table Vl-5 shows the effect of the proposed redevelopment program on the Marina •without assuming any berth rate increase. It can be noted, by comparing Table Vl-4 with Vl-5, that only 8 new berths are proposed in the Marina. Also, the berth size distribution remains essentially the same. The concept used here is to continue to serve existing Marina berth renters with new facilities.

TABLE VI-5
BERTH INCOME BASED UPON PROPOSED IMPROVEMENT PROGRAM
SIZE DISTRIBUTION AND CURRENT RATES

		Potential Annual Income Per Sub-Basin (In Thousands)							
		West Basin		Outer West		East Basin		Total Marina	
Berth Length in Feet	Rate Per Foot Per Month	Berths	Income	Berths	Income	Berths	Income	Berths	Income
20	$4.81	28	$32.3	1	$1.2	25	$28.9	54	$62.4
25	4.81	36	51.9	35	50.5	154	222.2	225	324.6
30	4.88	32	56.2	32	56.2	101	177.4	165	289.8
35	4.88	24	49.2	0	0.0	61	125.0	85	174.2
40	5.92	78	221.6	1	2.8	0	0.0	79	224.4
45	5.92	33	105.5	5	16.0	0	0.0	38	121.5
50	6.05	15	54.5	0	0.0	0	0.0	15	54.5
60	6.05	20	87.1	0	0.0	0	0.0	20	87.1
80	6.18	9	53.4	0	0.0	0	0.0	9	53.4
110	6.18	4	32.6	0	0.0	0	0.0	4	32.6
		279	$744.3	74	$126.7	341	$553.5	694	$1,424.5
Percentage Per Basin		40%	52%	11%	9%	49%	39%	100%	100%

Source: Moffatt & Nichol Engineers, Williams-Kuebelbeck & Associates, Inc.

RECOMMENDED REDEVELOPMENT FINANCING PLAN

Table Vl-3 projected an annual surplus of $333,000 for FY 1997-98. If this is added to the. estimated $1,957,000 Marina reserve fund balance total funding available for the redevelopment program at the start of FY 1998-99 would be about $2.3 million.

As noted. Table Vl-2, if the City and County (CCSF) was to borrow $14.5 million over the period shown, a new annual debt service requirement would amount to $890,000 annually by FY 2003-04. It is clear that in order for CCSF to afford the proposed redevelopment program it must increase revenues and reduce expenses significantly. As noted previously, the redevelopment program adds only 8 boat berths to the existing inventory at the Marina. Once the redevelopment program is completed the new boat slips will be the highest quality facilities at the finest location in San Francisco. In addition, significant savings in operating and capital expenses, can be enacted as a result of the redevelopment program.

WK.&A conducted a financial sensitivity analysis in order to develop the optimal financing plan.

Table Vl-6 presents a six-year projection of annual cash flows under the proposed financing program.

TABLE VI-6
SAN FRANCISCO MARINA
RENOVATION PROGRAM CASH FLOW PROJECTIONS
FY 1998-99 THRU FY 2003-04

	Fiscal Years - Figures in Thousands					
	98-99	99-00	00-01	01-02	02-03	03-04
OPERATING INCOME						
Berthing Fees						
Permanent Berths						
West Basin	$690	$613 6)	$350 6)	$919 7)	$919	$919
Outer West	122	122	122	122	122	122
East Basin	541	541	541	270 8)	684 9)	684
Sub-total	1,353 1)	1,276	1,013	1,311	1,725	1,725
Other Berth Related 2)	72	72	72	72	72	72
Sub-total Berthing Fees	1,425	1,348	1,085	1,383	1,797	1,797
Land Rents, Concessions & Miscellaneous 2)	137	141	145	149	153	158
Sub-total Operating Income	1,562	1,489	1,230	1,532	1,950	1,955
OPERATING EXPENSES						
Payroll 2)	627	646	665	616 4)	600 5)	618
Contractual & Other Services 2)	200	200	200	200	200	200
Materials, Supplies & Equipment 2)	37	37	37	37	37	37
Overhead 2)	56	58	60	62	64	66
Sub-total Operating Expenses	920	941	962	915	901	921
NET OPERATING INCOME	642	548	268	617	1,049	1,034
Less:						
CAPITAL EXPENSES	400	200 10)	200	50 11)	50	50
Plus:						
INTEREST INCOME 12)	114	131	152	157	74	93
NET INCOME	356	479	220	724	1,073	1,077
Less:						
DEBT SERVICE						
Existing	23	23	23	23	23	23
New 13)	0	43	86	362	672	890
Sub-total Debt Service	23	66	109	385	695	913
ANNUAL SURPLUS	333	413	111	339	378	164
Plus:						
PREVIOUS SURPLUS	2,290	2,623	3,036	1,147 14)	1,486	1,864
CUMULATIVE SURPLUS	$2,623	$3,036	$3,147	$1,486	$1,864	$2,028
DEBT COVERAGE RATIO 15)	115.0	47.0	29.9	4.9	3.7	3.2

Source: City and County of San Francisco, Moffatt & Nichol Engineers, Williams-Kuebelbeck & Associates, Inc.

TABLE Vl-6
FOOTNOTES

1) Based upon95 percent of $1,423,700 capacity under 100 percent occupancy and current berth rental rates.

2) Average of FY 1993-94 thru FY 1996-97 used since annual totals vary.

3) Escalated at 3 percent per year.

4) Estimate for year reduced by 10 percent due to reduced maintenance personnel resulting from West Basin redevelopment.

5) Estimate for year and thereafter reduced by additional 5 percent due to reduced maintenance personnel resulting from East Basin redevelopment.

6) West Basin redevelopment from April 1,2000 to June 30,2001 (15 months). During this period berth fees assumed to be reduced by one-half.

7) Reflects a 95 percent occupancy based upon a 30 percent increase in current FY 1996-97 berth rates and new post-redevelopment slip configuration.

8) East Basin redevelopment from July 1,2001 to June 30,2002 (12 months). During this period berth fees assumed to be reduced by one-half.

9) Reflects a 95 percent occupancy based upon a 30 percent increase in current FY 1996-97 berth rates and new post-redevelopment slip configuration.

10) Capital expenses maintenance dredging costs reduced by 50 percent during and following West Basin redevelopment.

11) Capital expenses maintenance dredging costs reduced to $50,000 per annum for entire Marina when East Basin redevelopment program is undertaken.

12) Calculated at 5 percent of previous year's cumulative surplus.

13) See debt repayment schedules - Table Vl-2.

14) Surplus reduced by a $2 million capital contribution to the East Basin redevelopment program

15) Calculated as the ratio of net income plus prior year's cumulative surplus to total debt service.

The table is self-explanatory based upon its results and explanatory footnotes. The bottom line conclusion of the analysis is reflected in the debt-coverage ratios at the bottom of the table. As noted, when the renovation program is completed, starting in FY 2002-03, the debt coverage ratio on the State loans is over 3. This ratio is about twice as strong as the 1.5 ratio usually considered very conservative for municipal revenue bond issues.

In addition to the strong debt coverage ratio, the CCSF will contribute $2 million to the Phase Ill-East Basin renovation program.

The most significant aspects of the recommended financing plan are highlighted below.

Increase Berth Rates For New Berths

An important element of the financing plan is to increase the berth rates for new slips in the West Basin and the East Basin when the renovation of each basin is completed. The last berth rate increase at the Marina occurred in FY 1993-94. That increase was 30 percent. We are suggesting another 30 percent increase as part of this financing plan. Such an increase would essentially amount to a 3 percent cost of living increase annually over the period since 1994.

To illustrate the impact of the rate increases. Table Vl-7 shows comparable current rental rates at the Marina and in the other two marinas in San Francisco.

It can be noted that the 30 percent increases proposed for the post renovation situation from $5.65 to $7.35 for the West Basin and from $4.85 to $6.30 for the East Basin still keeps these rates under existing average rates for the Pier 39 current 1997 rates. In fact, when the post renovation average rate ($6.36) is compared to the current averages for Pier 39 and South Beach Marina, the latter are higher than the Marina's projected post-renovation levels under the current situation. The point is that the proposed increases in berth rates, which will be required to make the project financially feasible, are not excessive.

The importance of the increases in berth rates is shown on Table Vl-6. It can be noted that the rate increases described above will increase Operating Income by $372,000 per year from the pre- to post- renovation condition $1,353,000 per year in FY 1998-99 to $1,725,000 per year in FY 2002-03. This Operating Income increase is important to program financial feasibility since debt service expenses over this same period will increase by $890,000 per year. In essence, new Operating Income from increased boat berth rates where new facilities are provided, could pay for about 42 percent of this increase in expenses.

TABLE Vl-7
SAN FRANCISCO MARINA
BERTH RATES PRE- AND POST—RENOVATION PROGRAM

	Rates Per Linear Foot Per Month		
	Pre-Redevelopment Current 1997	Post Redevelopment Projection	Pre to Post Redevelopment Rate Increases
West Basin Average	$5.65	$7.35	30%
East Basin Average	4.85	6.30	30%
Outer West Average	4.98	4.98	0%
Total Marina Average	5.24	6.36	21%
Pier 39 Average	7.63		
South Beach Marina Average	7.06		

Source: City and County of San Francisco, Williams-Kuebelleck & Associates, Inc.

Reduction in Capital Expenses

Another important element of the financing plan is the decrease in Capital Expenses which are expected to occur due to the renovation program. As previously noted, the Marina's expenditure on Capital Expenses has normally exceeded $400,000 per year. The major portion of Capital Expenses, according to Marina management, has been used for maintenance dredging. Based upon discussions with Marina management, it is projected that $350,000 per year will be a realistic reduction in Capital Expenses from a pre- to post- renovation program. This annual saving could assist in paying about 39 percent of the increase in annual debt service expenses.