CITY OF FORT LAUDERDALE

OFFICE OF THE CITY AUDITOR

Las Olas Marina Expansion
Report #13/14-01

May 6, 2014

CITY OF
FORT LAUDERDALE

City Auditor's Office

Memorandum

Memo No: 13/14-03

Date: May 6, 2014

To: Honorable Mayor and Commissioners

From: John Herbst, CPA, CGFO, CGMA
City Auditor

Re: Las Olas Marina Expansion Analysis

The City Auditor's Office was asked to perform an evaluation of Las Olas Marina Expansion Analysis (see attached). The expansion analysis was prepared by the City's Budget Office.

In our opinion, the scenarios developed by the Budget Office appear reasonable and indicate that the project is not viable on its own when using conservative assumptions.

The scope of our review consisted of determining the reasonableness of the scenarios developed by the Budget Office. The evaluation consisted of inquiries and review of documentation provided by staff. We did not conduct detailed testing of the information provided to substantiate the assertions contained within the analysis, except as to errors/omissions that came to our attention during the course of our evaluation.

The challenge presented in considering the potential viability of the marina expansion is driven by a number of variables that are difficult to determine with any degree of accuracy:

- What is the expected blended lineal rate that will be achieved?
- What is the anticipated occupancy?
- How long will it take to reach that level of occupancy?

The blended rate issue results from the tiered pricing structure employed at the marina. Larger boats pay more per lineal foot than do smaller boats. Therefore, the mix of boats on any given day will yield a different blended rate for that day; and the mix of boats is constantly shifting.

The level of occupancy is difficult to predict as well. Based on a variety of factors, it currently hovers around 72%, depending on the time of year. When the facility is shut down for the expansion, those boaters will seek accommodations elsewhere. When the new facility opens, some of those customers will return, but some will not. Additionally, new customers will be drawn to the expanded facility. It is difficult to project what the level of drop-off and new customer visits will be. However, based on a recent example in Palm Beach, it is reasonable to expect occupancy rates to be significantly lower when the facility is re-opened, then building up

to a stable level of permanent occupancy over time, which may take months or years. Again, these rates of growth are not readily determinable.

Recommendations:

Based on the subjectivity of the assumptions in the analysis, it is difficult to render an opinion on the feasibility of the project with any precision. The best that can be done is to provide a range of possible outcomes. Most of the scenarios indicate that under the type of conservative assumptions warranted when expending public funds, the project does not generate sufficient cash flow to support the debt necessary to construct the facility.

The options available to the Commission at this time consist of the following:

1. Leave the marina facility as is, which costs the City nothing and continues to generate net income to the General Fund of $1.1 million.
2. Invite private-sector developers to bid on the redevelopment opportunity, using their own funding, in a public-private partnership model
3. Be prepared to support the project as a public benefit through significant subsidies of either one-time capital dollars, General Fund contributions towards annual operating deficits, or both, should the results in scenario D fail to materialize.

cc: Lee R. Feldman, City Manager
Cynthia A. Everett, City Attorney
Jonda Joseph, City Clerk

Attachment

Las Olas Marina Pro Forma - 6 Scenarios[1]

March 4, 2014

	Docking Space in Lineal Feet	Effective Rate Per Foot/Per Day	Utilization Rate/ Occupancy Rate (3 year average = 71.9%)	Rate Factoring in Occupancy Per Foot/Per Day	Days Per Year	Yacht Fee Gross Revenue (3 year average)	Scenario Comments
Existing	**3427**	**$1.46**	**71.90%**	**$1.05**	**365**	**$1,312,686**	**Las Olas Marina - As is 3427 lineal feet**
Scenario A Murray Report 5025 ft. $1.46 Rate 71.9% Occupancy	5025	$1.46	71.90%	$1.05	365	$1,925,354	Original Design 5,025 lineal feet, current effective rate, and current occupancy rate
Scenario B Murray Report Increase to 6000 ft. $1.46 Rate 71.9% Occupancy	6000	$1.46	71.90%	$1.05	365	$2,298,931	Expanded design 6,000 lineal feet as proposed by 3rd party
Scenario C Sasaki Report 5025 ft. $1.63 Rate 74% Occupancy	5025	$1.63	74.00%	$1.21	365	$2,212,322	Higher effective rate and occupancy rate as proposed by 3rd party
Scenario D Robert Dean Report 6000 ft. $2.00 Rate 80% Occupancy	6000	$2.00	80%	$1.60	365	$3,504,000	Expanded design, higher effective rate, and occupancy rate as proposed by 3rd party
Scenario E Alternate Report 6000 ft. $1.46 Rate 47.98% Occupancy	6000	$1.46	47.98%	$0.70	365	$1,533,953	Expanded design, current effective rate, and potential average occupancy rate (based on Palm Beach Marina case study - initial 4 year average)
Scenario F Alternate Report 6000 ft. $1.63 Rate 47.98% Occupancy	6000	$1.63	47.98%	$0.78	365	$1,712,564	Expanded design, higher effective rate (Sasaki), & potential average occupancy (based on Palm Beach Marina case study - initial 4 year average)

Note: This analysis does not take into consideration the parking garage which currently generates approximately $515,000 per year in revenue.

[1] All figures are presented in 2013 dollars

Estimated Bonding Capacity Based on Pro Forma[1]

	Yacht Fee Gross Revenue (3 year average)	Other Miscellaneous Marina Revenue (3 year average)	Marina Expenses (Personnel + $117 per foot - Sasaki)[2]	Total Revenue Minus Expenses	Revenue to General Fund (3 year average)	Amount Available for Debt Service	Bonding Capacity Based on Amount Available for Debt Service[3]
Existing	**$1,312,686**	**$292,489**	**$508,229**	**$1,096,946**	**$1,096,946**	**$0**	**$0**
Scenario A **Murray Report** 5025 ft. $1.46 Rate 71.9% Occupancy	$1,925,354	$292,489	$787,925	$1,429,918	$1,096,946	$332,972	$3,557,894 @ 5.498%
Scenario B **Murray Report** Increase to 6000 ft. $1.46 Rate 71.9% Occupancy	$2,298,931	$292,489	$902,000	$1,689,420	$1,096,946	$592,474	$6,477,436 @ 5.345%
Scenario C **Sasaki Report** 5025 ft. $1.63 Rate 74% Occupancy	$2,212,322	$292,489	$787,925	$1,716,886	$1,096,946	$619,940	$6,792,882 @ 5.336%
Scenario D **Robert Dean Report** 6000 ft. $2.00 Rate 80% Occupancy	$3,504,000	$292,489	$902,000	$2,894,489	$1,096,946	$1,797,543	$20,048,837 @ 5.218%
Scenario E **Alternate Report** 6000 ft. $1.46 Rate 47.98% Occupancy	$1,533,953	$292,489	$902,000	$924,442	$1,096,946	-$172,504	$0
Scenario F **Alternate Report** 6000 ft. $1.63 Rate 47.98% Occupancy	$1,712,564	$292,489	$902,000	$1,103,053	$1,096,946	$6,107	$0

Note: This analysis does not take into consideration the parking garage which currently generates approximately $515,000 per year in revenue.

[1] All figures are presented in 2013 dollars

[2] This does not include any renewal and replacement funds and has not been adjusted for inflation since the Sasaki report was prepared in 2012.

[3] Based on 30 year, tax exempt revenue bonds at 1.25x coverage. Interest rates vary based upon cost of bond issuance in relation to bond size.