SUBJECT: LaSalle Park Marina Business Case Review

TO: Community and Corporate Services Committee

FROM: Finance Department

Report Number: F-28-16

Wards Affected: 1

File Numbers: 945-10

Date to Committee: September 12, 2016

Date to Council: October 3, 2016

Recommendation:

Receive and file finance department report F-28-16 reviewing the business case for LaSalle Park Marina.

Purpose:

Services offered by LaSalle Park Marina, provide recreational activities for residents of the City of Burlington, contributing to healthy lifestyles.

A Healthy and Greener City

- Healthy Lifestyles

Background and Discussion:

LaSalle Park Marina (LPMA) is a non-profit organization that was created in 1981 and provides a venue for recreational boating at the Marina. LPMA operates the marina under the terms of a joint venture agreement with the City of Burlington. The joint venture agreement provides LPMA with the authority to utilize the marina and outlines their responsibilities related to maintenance, operation and capital renewal. The current Marina operation has 219 slips and is protected by a floating wave break.

At the Community and Corporate Services committee meeting held on April 18, 2016, Parks & Recreation staff brought forward report PR-01-16, which provided an update on the LaSalle Park Marina Wave Break project. There were also a number of delegates at the meeting both in support of and against the project. At this meeting, Council requested Finance staff to review the most recent business case for their Vision 2012 Safe Harbour Project and 2015 financial statements submitted by LPMA.

Vision 2012 Safe Harbour Project

The following provides a summary of facts surrounding the permanent wave break and expanded marina project, based on the January 2016 business case;

- Environmental assessment is complete
- Recreation and Boating Feasibility study complete (phase 1- 2014)
- Project cost for permanent wave break and expanded marina estimated at $14 million, includes 30% contingency
- Estimated 3 year project length (construction scheduled for off-season)
- Expanded marina with 340 slips (including transient slips)
- Detailed design has not been initiated, estimated cost of $350,000 to be funded by LPMA
- Financing for the proposed project cost (no financing commitments to date);
    - Senior levels of government grants $9.4 million
    - Joint Venture Loan $4.6 million
    - LPMA preferred repayment terms 25 years+

Strategy/process

Finance staff have thoroughly examined LPMA’s financial statements from 2011-2015 and their revenue and cost projections based on an expanded marina with a permanent wave break. Staff noted the following;

Revenue

<u>Financial Statements</u>

- Revenues have been steadily declining each year, experiencing a total decrease of 8% from 2011.

- LPMA has indicated that their occupancy rate declined in that time frame from 96% to approximately 84% in 2015.
- In 2015, 89% of slip rental revenue came from boats 30ft. and under

LPMA Financial Projection

- Assumes a conservative 80% occupancy rate
- Based on an expanded marina with 320 slips and 20 transient slips for a total of 340 slips
- Revenue distribution of slip rentals assumed to remain consistent throughout the forecast period at 56% from boats 30ft. and under and 44% from boats in excess of 30ft.
- Rental rates (based on length of boat) reflect an increase in the range of 3.5% to 11.5% in year one of the forecast
- Member rates project an increase of 30%
- The above assumptions result in an overall revenue increase of 92% (46% due to increased slips, and the remaining 46% due to rates and distribution) in the first year of forecast

There are two areas of concern regarding forecasted revenue as follows;

- Revenue Distribution Mix: LPMA is modeling a significant change in the types of rentals they receive in year one of the forecast period and going forward. The assumption is that LPMA will be able to accommodate larger boats (up to 40ft.) with the new slips. At this point, they are able to accommodate boats up to 37.5 ft., and currently only have 1 slip rented out at this size. The revenue forecast assumes 19% of the total rentable slips (219) will be rented out to 40ft. boats, at a much higher rate. As a result, approximately 70% of the new slips would be allocated to large boats, representing an increase of 6 times their current portfolio. As per the Boating Feasibility and Capacity study, the number of larger boats has increased over the past several years and this trend is expected to continue, at a declining rate. Though larger boats may continue to increase their share of the boat market, those boats less than 26ft. will continue to dominate the market in Halton Region and Ontario as a whole.

- Rates & Fees: As per the Boating and Feasibility study completed in June 2014, annual rate increases of 3-4% are typical given the competitive nature of the market and one-time increases above this range for capital improvements do occur. Based on LPMA's current and forecasted rate structure, they are proposing an increase to rental rates ranging from 3.6% to 11.5%, as well as a member rate increase of 30%. Comparing LPMA proposed rates to the current rates of three neighboring marinas, LPMA rates are generally higher. Rental rates for 40ft. boats are 22% higher than the average. LPMA will need to have a communication plan to members in order to justify rate increases relative to amenities offered versus comparable marinas.

It should be noted that, the Boating and Feasibility study indicated there is a wait list in the Halton region for 470 boaters and that this has the possibility of offsetting some of the revenue concerns above.

Expenses

Financial Statements

- Operating cost as a % of revenues have fluctuated significantly year over year, most likely attributed to replacement of main docks and finger docks
- General/ Administrative expenses average 30% of revenues
- Do not consider any costs for detailed design

LPMA Financial Projection

- Removed $60,000 in annual operating expenses to account for maintenance of the current temporary wave break that would no longer be required with a new permanent structure
- Total expenses increase annually by 1.06%
- No annual provision for renewal of major infrastructure

Historically, LPMA's general and administrative expenses average approximately 30% of their revenue. In the forecast, LPMA has only assumed 1.06% year over year growth in their expense projection and a nominal increase in year one taking into consideration an expanded marina and a permanent wave break. The changes in expenses seem disproportionate to the increase in revenue. Also, debt repayment over 25 years will account for approximately 50% of their revenues. Any negative revenue fluctuations and/or increase in expenditures will have an impact on LPMA's ability to repay the debt.

Furthermore, areas of concerns are places of omission. LPMA financial projections exclude lifecycle costing, costs for detailed design and the down payment requirement for loans under the existing joint venture policy. Estimates for lifecycle costing and further information can be found in the next section of this report.

Infrastructure Renewal

The financial projections provided by LPMA do not include any lifecycle costing for major capital renewal. Asset Management is a critical component of managing infrastructure as a long term investment in a cost effective manner. Since the permanent wave break is a unique structure, it is difficult to determine exactly what life cycle or maintenance costs are reasonable. With that said, staff was able to find some external data that assisted in extrapolating a reasonable number.

<u>Major Infrastructure (Floating Docks, Launch Ramps)</u>

- The Boating Feasibility and Capacity study suggests that marina operators should include in their budgets an annual reserve of 10-12% of gross revenue when possible to cover major capital improvements within the 20-25 year life cycle of major infrastructure features. This would suggest that LPMA budget for a cost in the range of $30,000-$50,000 annually based on their current experience and revenue projections of $500,000 in year one.
- A generally accepted best practice is 2% of replacement costs to determine an annual maintenance cost. As per the city's facility condition data, La Salle Park Marina major infrastructure has an estimated replacement value of $3.2 million (includes an estimate for expanded marina), suggesting an annual maintenance cost of $64,000.
- As per report PR-03-16, LPMA has now replaced all in-water infrastructure with an expected life cycle of 25 years. The assumption would be that by 2041, LPMA would need a minimum of $3.2 million (excludes inflation) to replace docks. This would imply that LPMA would need to begin to reserve approximately $128,000 annually to meet this need.

<u>Permanent Wave Break</u>

- At an August 2012 Public Information Centre for the Class EA process, LPMA suggested that maintenance costs for a fixed wave break could vary between 0.5%, to 1% of the capital cost on an annual basis. Based on a capital cost of $14 million, removing 30% contingency, this could range from $54,000 to $108,000 annually.

LPMA has not included annual maintenance/ renewal for their assets (permanent wave break and finger docks). Staff would anticipate at minimum annual costs of $258,000 for a maintenance/ renewal component. ($50,000 dock maintenance, future dock replacement of $128,000, $80,000 for the maintenance/ rehabilitation of the permanent wave break). As per the EA study, it is normal practice for docks to remain in the water during the winter when protected by a permanent wave break. However, the ability for docks to withstand the ice cannot be fully assessed or guaranteed. The study further states that shifting ice has been known to cause more problems in LaSalle Park than any other area in Burlington Bay.

Loan Request

LPMA's funding model for the capital project suggests one-third of project funding comes from the Infrastructure Ontario Loan and/or the City. One-third of total project funding ($14 million) is equivalent to approximately $4.6 million, with a LPMA-preferred repayment term of 25 years or more. The city must rely on the Region of Halton for any debt financing. The Region issues debt annually on behalf of local municipalities and based on market conditions and needs.

Infrastructure Ontario (IO) Loan

IO provides long term financing to public sector clients (municipalities, sports & recreation organizations, universities and colleges, hospices) to renew infrastructure. Finance staff met with our IO loan representative regarding LPMA's ability to apply for a loan under the Sports & Recreation program. Unfortunately, LPMA is not affiliated with any member organizations under the Sports and Recreations category and would not qualify for a loan under this program.

The City of Burlington has the option to apply for the IO loan on behalf of LPMA, through the Region of Halton. The main advantage of the IO program is favorable lending rates. However, the IO representative indicated that when terms are of this length (25 years +), the lending rates under the program are not much different than if the Region issued debt through their regular process, therefore, losing the main advantage of applying under this program. The following are the current lending rates for municipalities (June 8, 2016) posted by IO and the corresponding repayment.

Table 1: Repayment Scenarios $4.6 million loan (IO rates)

Term	Rate	Annual Repayment	Total
20 years	2.95%	$308,000	$6.2 million
25 years	3.14%	$268,000	$6.7 million
30 years	3.25%	$242,000	$7.3 million

Whether the City/Region applied for the loan under the IO program or through the annual Regional debt issue, the city would be fully responsible for repayment of this debt if LPMA defaults on all or part of their loan obligation.

Joint Venture (JV) Loan

Since LPMA does not qualify for a loan under the IO program, they would need to enter into a Joint Venture Loan Agreement with the city. As per the city's JV policy, a down payment of 10% of the project cost is required in support of the loan. This would equate to a down payment of $1.4 million. As per LPMA's financial statements, they do not have the funds to support this.

Furthermore, it is part of our JV policy that debt has a repayment term of 10 years. Issuing debt beyond our policy may set a precedent for future requests.

City's Debt Limit

Currently, the city's debt limit is at 11.6%, as per the March 2016 Financial status report. A $4.6 million loan, over a term of 25 years or greater would have a long term impact on the city's debt limit. The city maximizes its debt capacity when issuing debt in ten year terms. Longer term debt shrinks available capacity as the available room is tied up for a greater period of time.

As per the debt workshop to Committee of the Whole in March 2016, Council unanimously indicated they would not be in support of a longer repayment period for JV loans. The city's Joint Venture policy as mentioned above states a debt repayment term of ten years, which aligns with the debt issuances of other city debt. Issuing debt with a repayment term of 25 years or greater for a quantum of $4.6 million may also pose challenges as there would need to be an appetite in the market for such a product or alternatively it would need to be combined with other debt issuances of the same term, again this may be unlikely considering the term, and since the Region typically goes to market once a year. It would be possible to request an IO loan through the Region.

Taxpayer Implications

Further to the actual loan request of $4.6 million, the remainder of the project cost ($9.4 million) would require cash flow financing. Generally, senior government funding is received upon proof of significant project completion. Therefore, the city would need to cash flow the $9.4 million over a 3-4 month construction period. Cash flowing $9.4 million from the city's short and long term holdings even over a short period of time is a significant obligation and is representative of a taxpayer contribution. The interest earned ($~140,000) on the $9.4 million is forgone and this decrease in investment income would need to be supplemented by the tax base.

Financial Matters:

Table 2: Revised Staff Financial Projection ('000s)

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Revenue *(LPMA figures)*	**$500**	**$510**	**$520**	**$531**	**$541**
[redacted]					
Operating Expense *(City figures)*					
Maintenance Permanent Wave break	$80	$80	$80	$80	$80
Maintenance Docks	$50	$50	$50	$50	$50
Total Operating Expenses	**$130**	**$130**	**$130**	**$130**	**$130**
General Expenses *(City figure)*	**$150**	**$153**	**$156**	**$159**	**$162**
Debt Repayment					
Existing JV Loan – Docks	$28	$28	$28	$28	$28
$4.6M Loan (25 years)	$268	$268	$268	$268	$268

CITY OF Burlington

Total Debt Repayment	**$296**	**$296**	**$296**	**$296**	**$296**
Infrastructure Reserve – Finger Docks *(City figure)*	**$128**	**$128**	**$128**	**$128**	**$128**
Deficit	**($204)**	**($197)**	**($190)**	**($182)**	**($175)**

The above financial projection assumes the following;

- Revenues as provided by LPMA's business case, however noting the revenue concerns above
- Operating expenses include annual maintenance costs based on an expanded marina and estimations of on-going annual maintenance requirements of a permanent wave break (no inflation adjustment applied).
- General and administrative expenses are projected at 30% of revenues. This is based on LPMA historical financial statements
- Debt repayment includes current ten year (2016) JV loan with the City for the replacement of 60 finger docks, and assumed debt repayment for a 25 year $4.6 million loan, based on IO published rates
- Annual reserve provision of $128,000 for the future replacement of docks.

The forecast does not include 10% down payment requirement of a JV loan ($1.4 million) or the expense of $350,000 for the detailed design. It is possible for LPMA to use the LPMA held new wave break replacement fund for this cost. Currently there is $356,372 in the fund; use of these funds for the detailed design would deplete this fund.

It should be noted, if LPMA does not set aside funds for maintenance and/or future renewal of their assets they would have sufficient funds to repay the debt assuming their revenue forecasting model. However, they would not earn enough annually to set aside for current or future preventative maintenance. If LPMA does not practice sound asset management principles, their assets will not operate nor be maintained in a cost effective manner, deteriorating their condition and impacting levels of service. The permanent wave break has a design life of 50 years (EA study) at which point one could expect the wave break may require some major rehabilitation as a result of winter conditions and regular wear if periodic and regular maintenance and inspections are not occurring.

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Source of Funding

The City of Burlington has provided the following funding to the LPMA;

- 1999, $220,000 for floating wave break (JV loan)
- 2011, $150,000 Environmental Assessment
- 2013, $6,754 Recreational Boating Feasibility and Capacity Study (Phase 1)
- 2016, $250,000 for purchase of finger docks (JV loan)

Other Resource Impacts

LPMA has the following funds to draw upon;

- Wave Break replacement fund $356,372
- Dock Replacement fund $16,247
- Floating Wave break cleaning fund $0.

As mentioned above, use of the wave break replacement fund for detailed design would deplete this fund, leaving a balance of approximately $22,000 in reserves. Based on the above scenario (Table 2), there would be insufficient funds available for replenishing the above reserves.

Public Engagement Matters:

N/A

Conclusion:

Finance staff has thoroughly reviewed information provided by LaSalle Park Marina. Staff has reviewed the information in order to evaluate risks, performance, financial health and future prospects of the organization. Understanding that staff are not experts in the boating market, we have to the best of our knowledge provided facts and assessed financial information based on the data available. There is inherent variability to financial health and market assumptions that impact future sustainability for LPMA which staff, based on reasonable expectations, have attempted to capture above.

Respectfully submitted,

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Appendices: (if none delete section)

A. Supplemental Information

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.