



Oyster Point Marina Financial Analysis

San Mateo County Harbor District

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Dornbusch Associates
Economic & Financial Consultants

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I. INTRODUCTION

A. STUDY SCOPE AND OBJECTIVES

The San Mateo County Harbor District (SMCHD) engaged Dornbusch Associates (Dornbusch) to perform a financial analysis of Oyster Point Marina (OPM), with the primary objective of analyzing the financial implications of undertaking Capital Improvement Plan (CIP) investments, consisting primarily of dock replacement. The analysis considers issues related to SMCHD's Joint Powers Agreement (JPA) with the City of South San Francisco (SSF), which is set to expire in 2026. The analysis seeks to characterize the financial trade-offs of the following scenarios:

Scenario #1: This scenario assumes SMCHD would not replace docks at OPM prior to the expiration of the JPA in 2026 as specified in the \$10 million CIP. Under this scenario, SMCHD would continue to operate OPM and maintain the docks over the next nine years, but would not make investments in marina facilities or seek to extend the JPA beyond 2026. This scenario also assumes that control of the marina would be transferred to SSF at expiration of the JPA in 2026.

Scenario #2: This scenario assumes SMCHD would undertake the CIP, investing approximately \$10 million to replace existing docks and slips and make other investments. SMCHD would seek to negotiate a new JPA for a period sufficient for SMCHD to amortize its investments and generate the appropriate level of reserves to undertake future dock replacements.

Intermediate Scenario: This scenario assumes SMCHD undertakes some capital investment at OPM in order to fulfill the spirit of the JPA agreement with South San Francisco. The idea behind this scenario is that it may not be reasonable to cease all investment in OPM over the final nine years of the agreement. We present recommendations for amendments to JPA language that would protect SMCHD's investments under this scenario.

Note: *Some adjustments to certain revenue and expense line items will be necessary for the final version of this report. However, since most of these items impact all scenarios equally, the comparative analysis and conclusions of this report remain the same regardless of whether they are included or not. Projected revenue may be adjusted to reflect prepaid rent from WETA and for the guest dock, as well as for the new commercial activity permit to provide fuel service from Dock 7. On the expense side, while dredging is included as a line item in the CIP (and therefore reflected in Scenario 2), it is not included in Scenario 1 and may be necessary in the near term. As directed, Dornbusch will include these adjustments in the final version of the report, as well as any other adjustments, clarifications, or new data that becomes available. We will update all tables in the report accordingly.*

The analysis presented in this report consists of the following sections:

Section I. Introduction: Discusses the study's scope and objectives, assumptions, and limiting conditions.

Section II. Summary of Historical Oyster Point Marina Data: Describes historical OPM slip rental rates, slip supply and demand (occupancy rates), and financial data.

Section III. Summary of Changes at Oyster Point Marina: Summarizes changes associated with Oyster Point Development's (OPD) plans to develop a new technology office park adjacent to OPM, and the associated conveyance of SMCHD-controlled land to OPD. Also discusses potential

additional capital investments required at OPM in addition to those specified in the CIP.

Section IV. Scenario 1: Status Quo Operations with No CIP Investments. Presents projected operating and financial statistics assuming status quo operations, without making any of the investments specified in the CIP. This scenario assumes termination of the JPA in 2026.

Section V. Scenario 2: Undertake CIP and Determine Appropriate Length of JPA: Presents projected operating and financial statistics assuming SMCHD undertakes the CIP. This scenario models changes to rates and slip occupancy associated with slip replacement, and models impacts to OPM financial performance. Compares projected Scenario 2 operating cash flows to Scenario 1 projections, and discusses how this relates to the amortization of CIP investments. Recommends the length of the next JPA and estimates reserve levels achieved for subsequent capital investments over the long term.

Section VI. Intermediate Scenario: Discusses the level of investment that may be appropriate if the JPA terminates in 2026 and some improvements are required at the marina.

Section VII. Key Findings and Recommendations: Summarizes the key findings of the report, and our recommendations based on the analysis.

B. GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

To the best of Dornbusch's knowledge and belief, the statements of fact contained in this report, upon which Dornbusch bases its analysis and conclusions, are true and correct. Dornbusch obtained information, estimates, and opinions that underlie this analysis from sources considered reliable and believed to be true and correct. However, Dornbusch assumes no representation, liability or warranty for the accuracy of such items nor is such accuracy imposed on Dornbusch, and such items are subject to corrections, errors, omissions and withdrawals without notice.

Dornbusch utilized estimates and assumptions developed in connection with this engagement throughout the analysis presented in this report. Some assumptions, however, inevitably will not materialize, and unanticipated events and circumstances will occur; therefore, actual results achieved may vary from the estimates contained in the accompanying financial analysis.

II. SUMMARY OF OPM HISTORICAL DATA

This section presents an overview of OPM historical data, including slip rental rates, occupancy rates, slip rental revenues and all other revenues.

A. SLIP RENTAL RATES

The following table summarizes OPM slip rental rates over the past six years.

Exhibit 1. Oyster Point Marina Monthly Slip Rental Rates, FY2013 to FY2018

Slip Length	2013		2014 to 2017		2018		Average Annual Increase 2013-2018	
	Single Finger	Double Finger	Single Finger	Double Finger	Single Finger	Double Finger	Single	Double
16 Foot & Under	n/a	n/a	\$52.50	\$78.75	\$54.00	\$81.00	n/a	n/a
26 Foot	n/a	\$200.00	n/a	\$210.00	n/a	\$216.00	n/a	1.6%
30 Foot	\$220.00	\$230.00	\$231.00	\$241.50	\$238.00	\$249.00	1.6%	1.6%
36 Foot	\$265.00	\$275.00	\$278.50	\$288.75	\$287.00	\$297.00	1.6%	1.6%
40 Foot	\$305.00	\$315.00	\$320.25	\$330.75	\$330.00	\$341.00	1.6%	1.6%
45 Foot	\$340.00	\$355.00	\$357.00	\$372.75	\$368.00	\$384.00	1.6%	1.6%
50 Foot	\$380.00	\$395.00	\$399.00	\$414.75	\$411.00	\$427.00	1.6%	1.6%
55 Foot	n/a	\$435.00	n/a	\$456.75	n/a	\$470.00	1.6%	1.6%
60 Foot	\$455.00	\$475.00	\$477.75	\$498.75	\$492.00	\$514.00	1.6%	1.6%
Over 60 Foot	\$7.58/ft.	\$7.92/ft.	\$7.96/ft.	\$8.31/ft.	\$8.20/ft.	\$8.57/ft.	1.6%	1.6%

The table indicates that slip rental rates at OPM increased in only two of the past six years, in FY2014 and FY2018. In FY2014, single slip rates increased by 5% while double slips increased by roughly 3%. In FY2018, single and double slips both increased by approximately 3%. The increase in slip rates over the last six years has averaged just 1.6% annually for all slip sizes, falling below the average annual rate of inflation of 2.8% during the period (based on CPI for the SF-Oakland-San Jose region).

Historically, OPM required approval for slip rate increases from the SMCHD Board of Commissioners. However, in 2017 OPM received approval from the Board to increase slip rates annually by CPI beginning in FY2018. The GM indicated that he anticipates raising rates annually by CPI going forward.

B. SLIP SUPPLY AND OCCUPANCY RATES

Oyster Point Marina currently has a total of 408 rental slips that are distributed along 10 individual docks located in two basins: West and East. The following exhibit presents a map of the marina layout.

Exhibit 2. Oyster Point Marina Map



The following table provides a breakdown of the number of slips by size and dock within OPM.

Exhibit 3. Oyster Point Marina Existing Slip Supply & Distribution, July 2017

	Dock Number:										TOTAL	% TOTAL	
	1	2	3	4	5	6	11	12	13	14			
< 26 Ft*	1	1	1	1	1				2	2		9	2%
26 Ft	21		1									22	5%
30 Ft	2	52	51	55	1	3						164	40%
36 Ft	1				48	27		20				96	24%
40 Ft	4						3		1	2		10	2%
45 Ft						17	19	19				55	13%
50 Ft							2		16			18	4%
55 Ft									1			1	0.2%
60 Ft										17	16	33	8%
TOTAL	29	53	53	56	50	47	24	41	37	18	408	100%	

This table excludes Dock 7, which was historically controlled by Drake Marine under its lease. Dock 8 is a transient “guest” dock, which is also used by private ferries accommodated through Commercial Activity Permits, and Docks 9 and 10, which were removed for the construction of the WETA ferry terminal.

The exhibit indicates that 64% of all the slips in the marina are within the 30 to 36-foot size range. 30-foot slips are the most prevalent, representing 40% of all slips in the marina. Smaller slips (26’ and below) represent only about 8% of the total. Slips longer than 36’ represent 27%, with 45’ slips being the

most prevalent slip size in this range (at 13% of the total). Smaller slips are primarily concentrated in the West Basin (Docks 1-6) while larger slips are concentrated in the East Basin (Docks 11-14).

The following table presents the number of occupied slips at OPM as of July 2017.

Exhibit 4. Oyster Point Marina Existing Slips Occupied, July 2017

	Dock Number										TOTAL	% OCC
	1	2	3	4	5	6	11	12	13	14		
< 26 Ft	1	1	1	1	1			2	2		9	78%
26 Ft	17		1								18	82%
30 Ft	1	34	41	37	1	2					116	71%
36 Ft	1				39	21		18			79	82%
40 Ft	4						3		0	2	9	90%
45 Ft						16	18	17			51	93%
50 Ft							2		9		11	61%
55 Ft									0		0	0%
60 Ft									13	9	22	67%
TOTAL	24	35	43	38	41	39	23	37	22	11	313	77%
% OCC	83%	66%	81%	68%	82%	83%	96%	90%	59%	61%	-	-

The exhibit indicates that of the 408 slips available at the marina, 313 slips are currently occupied, representing an overall occupancy rate of 77%. There are 116 occupied 30' slips, followed by 79 occupied 36' slips. The slip sizes with the highest occupancy rates are 45' slips with 93% occupancy, 40' slips with 90% occupancy, and 36' and 26' slips, both with 80% occupancy. The 30' slips, which are the most common size, have an occupancy rate of 71%. Given the higher occupancy rates for slips in the 36' to 45' range, the marina could potentially benefit from adding larger slips and reducing the number of 30' slips, which would generate higher overall occupancy for OPM.

The table indicates that Dock 11 has the highest occupancy at the marina at 96%. The high occupancy at Dock 11 is partly explained by the fact that it has a large share of desirable larger 40' and 45' slips and because Dock 11 was recently rebuilt and upgraded in 2013 with concrete slips that are in excellent condition relative to the other docks at the marina. Dornbusch anticipates that future dock rebuilds would have a similar positive impact on occupancy rates, as new docks would be more desirable to marina tenants, all else equal, compared to older docks.

C. UNDERSTANDING REVENUE AND EXPENSE DATA AND PROJECTIONS IN THIS REPORT

In FY2018, SMCHD modified how it accounts for certain expenses within each of its operating locations and departments (Oyster Point Marina, Pillar Point Harbor, District Administration, and Board of Commissioners). Operating expenses are now separated into "Enterprise" (related to revenue-generating activities) and "Public" categories (related to activities that do not generate operating revenue, such as maintenance of parks and trails).

Previously (in the historic data), OPM financial statements showed operating revenue, total operating expenses, and a net operating loss, which was then plugged by **non-operating revenue**, consisting primarily of the tax revenue received from San Mateo County. Going forward, financials are separated

into 1) Enterprise (operating) revenue and Enterprise expenses, and 2) Public revenue (county taxes) and Public expenses. Since Enterprise expenses are only a subset of total operating expenses, the Enterprise account shows an operating profit (surplus). And, since county tax revenue has been moved to the top line of the Public account, this account also shows a surplus.

Nevertheless, for the purposes of this analysis (and because our projections are based in part on historical data and financial reports), we focus on OPM’s operating revenue (which does not include an allocation of county tax revenue) and its total operating expenses. As in the historical data, some of our projections in Scenario 1 and Scenario 2 result in annual operating losses for OPM, as projected operating expenses sometimes exceed projected operating revenue.

The overall SMCHD financials (for the District as a whole) still show a profit after including the county tax revenue, as they have over the past several years. In fact, SMCHD projects an overall annual operating profit of over \$3.5 million for the next several years, according to recent CIP budget projections.

Our projections of OPM operating losses based on the historical accounting convention does not imply that, when Public revenues are allocated to OPM, the marina has an overall net loss. For example, in the FY2018 budget, SMCHD allocates \$1.55 million in tax revenues to the OPM Public account. After including this revenue, OPM shows a \$768,000 operating profit according to SMCHD’s FY2018 budget.

D. HISTORICAL OPM REVENUES

This section summarizes historical revenues generated by OPM. At the writing of this report, the audited FY2016 and FY2017 financial data for OPM was not yet available.

Exhibit 5. OPM Operating Revenue, FY2011-FY2015

Fiscal Year	Slip Rental	Rents & Concessions	Transient Dockage	Launching Fees	Dock Box Fees	Other Revenue	Total Revenue
2011	\$1,010,482	\$289,235	\$107,991	\$24,049	\$5,674	\$41,415	\$1,478,846
2012	\$1,102,874	\$286,288	\$57,188	\$24,903	\$8,953	\$21,999	\$1,502,205
2013	\$1,071,339	\$224,714	\$21,661	\$16,994	\$7,354	\$19,147	\$1,361,209
2014	\$1,147,867	\$371,029	\$41,879	\$21,748	\$6,380	\$27,337	\$1,616,240
2015	\$1,070,604	\$311,308	\$79,855	\$22,607	\$6,450	\$16,806	\$1,507,630
Average	\$1,080,633	\$296,515	\$61,715	\$22,060	\$6,962	\$25,341	\$1,493,226
% Share	72.4%	19.9%	4.1%	1.5%	0.5%	1.7%	100.0%
CAGR*	1.5%	1.9%	-7.3%	-1.5%	3.3%	-20.2%	0.5%

*CAGR = Compound Annual Growth Rate

Slip Rental. Slip rental revenues averaged nearly \$1.1 million annually over the five-year period and increased at an average annual rate of 1.5%. This tracks closely with average annual rental rate increases of approximately 1.7% over the period, suggesting stable occupancy.

Rents & Concessions. This includes lease and rental revenue for OPM’s landside leases, including the Inn at Oyster Point, Drake Marine (vessel service and dry storage), OPM Yacht Club, and a bait shop. Over the period shown, rents and concessions revenue averaged roughly \$300,000 annually. However, most of these leases and the associated land assignments were conveyed to Oyster Point Development in 2017 and are no longer under control of SMCHD. With the conveyance of these leases, OPM Rents &

Concessions revenues will decline significantly below historical levels. We discuss this in further detail in Section III of this report.

Transient Dockage. The transient “guest” dock (Dock 8) was replaced in 2013, which explains the decline in transient dockage revenues in FY2013. Revenues have since rebounded, with revenues reaching nearly \$80,000 in FY2015. The FY2018 approved rate for transient berthing is \$0.62 per foot of vessel per day.

Launching Fees. This department includes revenue generated by the use of the public boat launch ramp located in the East Basin, between Docks 13 and 14. Launching fee revenues have remained relatively stable, average around \$22,000 annually over the last five years. OPM currently charges \$12.00 per launch.

Dock Box Fees. Dock box rental revenue averaged nearly \$7,000 annually over the period. OPM currently charges \$10.30 per month for dock box rental.

All Other Revenues. This department includes parking fees, boat wash fees, fees for various permits, and other items. All other revenues have averaged \$25,000 annually over the last five years.

In summary, total operating revenues at OPM averaged nearly \$1.5 million annually over the five-year period, and increased at a modest annual rate of 0.5%, driven primarily by limited increases in slip rates. Slip rental revenues represented by far the largest share of total revenues (72.4%), followed by rent and concessions revenues (19.9%). Together, the remaining revenues from transient dockage, launching fees, dock box fees, and other revenue represented only 7.7% of total operating revenues.

E. HISTORICAL OPM OPERATING EXPENSES AND NET INCOME

This section summarizes historical OPM operating expenses. At the writing of this report, audited FY2016 and FY2017 financial data for OPM was not yet available. The following table summarizes average operating expenses at OPM over the two-year period 2014-2015.

Exhibit 6. Oyster Point Marina Annual Operating Costs (Excludes Depreciation), Average FY2014-2015

	Average 2014-2015	Share of Gross Rev
Advertising and promotion	\$5,250	0.3%
Auto expenses	\$190	0.0%
Bad debts	\$40,696	2.6%
Bank charges	\$13,861	0.9%
Contractual services	\$198,258	12.7%
Dues and subscriptions	\$161	0.0%
Insurance	\$117,866	7.5%
Licenses and permits	n/a	n/a
Office expense	\$9,205	0.6%
Personnel expenses	\$161	0.0%
Postage	\$2,978	0.2%
Equipment rental	\$3,193	0.2%
Operating expenses	\$34,594	2.2%
Repairs and maintenance	\$49,194	3.1%

Salaries and benefits	\$1,084,291	69.4%
Telephone and communications	\$16,360	1.0%
Training & professional development	\$3,198	0.2%
Travel, conferences and meetings	\$470	0.0%
Uniforms	\$6,997	0.4%
Utilities	\$108,817	7.0%
Vessel destruction	\$54,825	3.5%
Total Operating Expenses	\$1,750,561	112.1%

The exhibit indicates that by far the largest expense is Salaries and Benefits, which averaged approximately \$1.1 million, or nearly 70% of total operating revenue, over the two-year period. The next largest expense was Contractual Services, which averaged roughly \$200,000 during this period (12.7% of total revenue). Contractual Services include the following:

- Boat waste pump-out
- IT services
- Security & security alarm
- Postage machine lease
- Trash compactor services
- Cash deposit services
- Pest control
- Legal
- Payroll processing
- Boat lien/auction services
- Parking citation/enforcement
- Miscellaneous services

The next largest expense line items include Insurance, which averaged roughly \$119,000 (7.5% of total revenue) and Utilities at \$109,000 (7.0%). Combined, Salaries and Benefits, Contractual Services, Insurance and Utilities averaged \$1.5 million (86.2% of total operating expenses). The Salaries and Benefits line item appears relatively high compared to marina industry standards, representing nearly 98% of average slip rental revenue.

The following table presents historical OPM operating revenues, operating expenses, and net operating income.

Exhibit 7. OPM Operating Revenue, Operating Expenses, and Net Operating Income, FY2011 - FY2015

Fiscal Year	2011	2012	2013	2014	2015	Average
Total Operating Revenue	\$1,478,846	\$1,502,205	\$1,361,209	\$1,616,240	\$1,507,630	\$1,493,226
Total Operating Expenses	\$1,667,512	\$1,569,916	\$1,689,314	\$1,724,398	\$1,776,724	\$1,685,573
Net Operating Income	-\$188,666	-\$67,711	-\$328,105	-\$108,158	-\$269,094	-\$192,347

OPM experienced an operating loss in each of these years, averaging approximately \$192,000 annually. In Section III of this report, we discuss changes to operating revenues and expenses that will impact OPM's net operating income.

F. CONTEXT: OYSTER POINT AND PILLAR POINT HISTORICAL DATA

Although an analysis of Pillar Point Harbor financial data is outside the scope of this report, it is important to put the results for OPM into appropriate context, especially since the report is intended to provide information relevant to a decision about SMCHD’s role in the future management of OPM.

The following table presents comparative historical financial data for OPM and Pillar Point Marina for FY2014 and FY2015.

Exhibit 8. Comparison of Oyster Point and Pillar Point Net Income, FY2014-FY2015

Line Item	Oyster Point Marina (Average 2014-2015)	Pillar Point Marina (Average 2014-2015)
Operating Revenue	\$1,562,000	\$2,427,000
Operating Expenses	\$1,751,000	\$2,840,000
Net Operating Income	(\$189,000)	(\$413,000)
Depreciation	\$1,256,000	\$711,000
Net Income	(\$1,445,000)	(\$1,124,000)

Again, this data excludes the allocation of Public revenue for both marinas. While OPM’s net operating loss over the two-year period averaged \$189,000, Pillar Point’s average operating loss was \$413,000. The key point here is that projections of annual Pillar Point operating income would be in a similar range as projections of OPM’s operating income.

The district’s projections for Pillar Point in the FY2018 budget show a net operating income of approximately \$2.8 million after a \$3.6 million allocation of tax revenues to its Public account. If those tax revenues were excluded from the top line, Pillar Point would show an \$800,000 operating loss. If projected operating losses (excluding Public revenue allocations) were used as one reason to consider terminating the OPM JPA, similar financial logic could be applied to Pillar Point. Of course, financial considerations (including operating income) would only be one aspect of any decision about the future of the JPA. We discuss other JPA considerations later in this report.

III. SUMMARY OF CHANGES TO OYSTER POINT MARINA

The Oyster Point Development (OPD) project will impact OPM in a number of ways, in both the short and long term. Some of the impacts will be direct and easily quantifiable, such as the loss of lease revenue from the hotel, bait shop, and boat yard/dry storage on former SMCHD-managed parcels that have been conveyed to OPD. This will directly impact OPM's operating (Enterprise) revenue.

Other impacts of the OPD project are not readily quantifiable, and include the potential short-term negative effects of site work, construction, and related noise and disruption, and the potential long-term benefits of bayside improvements and larger populations of nearby office workers and residents. There is uncertainty about the timing of OPD construction and related impacts.

A. SUMMARY OF OYSTER POINT DEVELOPMENT

In 2011, the SSF City Council approved the Oyster Point Specific Plan (OPSP), which focuses on improving approximately 81 acres of waterfront property at Oyster Point into a mixed-use development. Approval of OPSP allows the developer, Oyster Point Development, LLC (OPD), to develop roughly 2.25 million square feet of office and research & development space within approximately 40 acres over four development phases - Phase ID, IID, IIID, and IVD. Also included in the OPSP are two additional phases (Phases IC and IIC) that include infrastructure, recreational/open space and hotel improvements on an additional 40 acres of land.

Key improvements include:

- A new corporate campus, which will include office/research and development (R&D) buildings, parking and accessory uses at the western portions of the site.
- A site to accommodate a future hotel, restaurant and/or retail adjacent to OPM
- Public open space and Bay Trail improvements.
- Marina and Ferry Terminal-serving amenities including parking, shuttle drop off areas, and waterside improvements.

OPD and the City of South San Francisco are currently in the process of implementing Phase ID and IC as a coordinated construction project. At present, these phases are scheduled to begin in fall 2017 and last for roughly two years. SMCHD staff have indicated that construction may be delayed due to permitting issues, possibly triggering a delay in implementation until after fall 2017.

Phase ID will include the development of approximately 508,000 square feet of office and research & development facilities on approximately 10 acres. Phase IC will include a number of public improvements, including new roads, sidewalks, an enhanced Bay Trail, and additional open space on roughly 25 acres.

OPD reports that the timing of Phases IID, IIID and IVD is still to be determined. Planning for Phase IIC is scheduled to begin in 2017, while the timing for Phase IIC construction remains to be determined.

Later in this section, we discuss potential short-term and long-term impacts of this development on OPM.

B. REDUCTION IN LEASE REVENUE DUE TO LAND CONVEYANCE

The leases for the enterprises on land that was recently conveyed to OPD historically provided OPM with monthly revenue of \$19,800, or approximately \$238,000 per year. This will reduce OPM's operating revenue going forward (in both Scenario 1 and Scenario 2), and all else equal, will reduce net operating income. There will be some reductions to expenses associated with these leases, and SMCHD is working to provide Dornbusch with specific estimates of these expense reductions.

We assume that the Yacht Club lease will continue to contribute to the marina's enterprise revenue going forward. In addition, a 40,000 square foot parcel on land that is still controlled by SMCHD has been designated as a site for future marina-related commercial activity. Given the poor performance and closure of the former bait shop, and the fact that the parcel is not large enough for dry storage or a boatyard, we do not anticipate that the parcel will generate lease revenue that would have a significant impact on the marina's overall net income.

Therefore, our baseline assumption in both scenarios is zero enterprise revenue from this leased parcel, although the model has the flexibility to accommodate a different assumption.

C. POSSIBLE ADDITIONAL INVESTMENTS NOT INCLUDED IN CIP

In order to accurately model future OPM investments, depreciation, and cash flows, it is necessary to have as complete a picture as possible of the investments that the Harbor District will need to make during the forecast period. This includes the investments identified in the CIP as well as other investments in the marina site and infrastructure. Additional investments that could possibly require Harbor District funding include the OPM fuel dock, increasing the elevation of the peninsula to the east of the Harbormaster Building, and the parking area.

1. Fuel Dock

According to a recently executed implementation agreement, the Harbor District has assumed responsibility for the fuel dock subsequent to the creation of the Oyster Point community facilities district (OPCFD). SSF agreed to reimburse SMCHD for all necessary immediate repairs, as well as dockside and landside improvements to the fueling infrastructure (totaling roughly \$2.5 million). **Therefore, the model does not currently assume any investment in the fuel dock (since investment will be reimbursed by SSF).**

2. Site Work and Elevation Improvement (Subsidence and Sea Level Rise)

The implementation agreement between SMCHD and SSF indicates that SSF and OPD will have access to Harbor District parcels during site work and construction related to Phases IC and IIC of the redevelopment. The implementation agreement also specifies that SSF must require any contractors "to maintain at all times vehicular and pedestrian access routes to District-related operations (including but not limited to docks, fueling facilities, boat ramps, parking lots, bathrooms, ferry terminal, harbor master's office and the yacht club)."

Phase IC of the project primarily involves land conveyed to OPD to the west of the existing Harbormaster Building, and includes the following improvements:

- Streets and utilities
- Clay cap repair
- Reconfigured parking at marina
- Recreation area
- Clearing future hotel site
- Beach/park
- Bay trail and palm promenade

Phase IIC involves land primarily at the east end of the marina peninsula and includes repaving of parking, as well as landscaping of the parking area and the southern side of the peninsula.

Some of the details of the parking area improvements are to be determined, but it is currently SMCHD's understanding that improvements to counteract flooding during king tides (flooding which is expected to become more frequent in years to come due to climate change and sea level rise) will be undertaken by OPD in Phases IC and IIC. These improvements may involve re-grading the parking areas and improving the elevation profile of the west part of the peninsula. **We do not have a cost estimate for this portion of the work specifically, and the baseline assumption is that SMCHD will not need to invest in improvements to counteract flooding. There is an input in the model that allows us to change this assumption.**

It will be important for SMCHD to fully understand the costs associated with any investments it may need to make for any other site work that is not included in the CIP.

The following items were listed in the August 10, 2017 agenda of the SMCHD Commissioners' finance committee meeting, and any future costs associated with these items should also be included in the overall financial projections for OPM:

- OPD construction phasing update
- OPM sea level rise projection assessment and plan
- OPM landfill subsidence geotechnical assessment
- Hazardous waste under remaining JPA property
- Sufficient parking? (number of spaces taken away)

D. SHORT-TERM IMPACTS DUE TO CONSTRUCTION

The conveyed land parcels are directly adjacent to the west basin of Oyster Point Marina, and Phase IC of the development will include site work and the removal of parking in this area. The implementation agreement allows the developer to fence off areas during construction, while preserving access to all Harbor District services.

Construction will create temporary and localized visual, noise, and air quality impacts. Depending on the severity of these impacts, some boaters, especially those who rent slips on west basin docks, may seek alternative berthing arrangements. This could involve moving to vacant slips in the East Basin of OPM, or seeking out slips in other local marinas.

The loss of the Drake Marine boatyard represents a reduction in marina amenities that may impact some slip renters' preferences about where to berth their boats.

E. LONG-TERM IMPACTS OF DEVELOPMENT

The long-term impacts of the OPD project on OPM will likely be positive in terms of the physical environment, including improved landscaping, roads, and parking lots, as well as a new public beach area and promenade. Some workers in the new commercial buildings will likely take advantage of this new public infrastructure and spend time near the bay during lunch breaks and after work, raising awareness of the marina, which could contribute marginally to higher slip occupancy rates over time. Commercial operators offering services (food & beverage, recreational equipment, etc.) catering to this population may be interested in leasing the designated OPM commercial parcel, which could contribute marginally to OPM's operating revenues over time.

SSF intends to eventually issue an RFP for a hotel on the parcel of land it now controls adjacent to the OPM west basin, and if the hotel featured a restaurant facing the marina, the restaurant could become an amenity not only for hotel guests, but also for current marina tenants, transient vessels and the general public. Although SMCHD will not benefit directly from the hotel in terms of lease revenue, there could be indirect benefits in terms of adjacent amenities, which could flow to occupancy rates and benefits for any commercial services operating on OPM-controlled property.

F. SUMMARY

The changes and impacts discussed in this section would apply to both Scenario 1 and Scenario 2. There may be marginal OPM slip occupancy reductions in the short-term and occupancy increases in the long term due to the OPD project, but the comparative cash flow analysis of Scenarios 1 and 2 we present later in this report effectively "nets out" these impacts because the impacts apply equally to both scenarios.

Nevertheless, it is important to fully understand the investment cost implications mentioned in this section in order to have an accurate picture of all future cash flows, especially in Scenario 2 in which SMCHD would undertake CIP investments and possibly other investments listed here.

IV. SCENARIO 1: STATUS QUO OPERATION WITH JPA TERMINATION IN 2026 AND NO CIP INVESTMENTS

Scenario 1 assumes that SMCHD continues to operate OPM until the JPA with SSF expires in 2026, after which time OPM would revert to SSF control. This scenario also assumes that SMCHD would not make *any* capital investments at OPM specified in the CIP (CIP investments are presented in detail in the discussion of Scenario 2). Instead, SMCHD would maintain the existing facilities, without making large capital investments, until expiration of the JPA in 2026. The maintenance will sustain the operation of the facilities and allow continued operation of OPM, but would not include capital improvements that would result in new or upgraded facilities. Considering the aging condition of many of the docks (with the exception of Docks 8 and 11, which were replaced in 2013), Dornbusch assumes escalating dock repair and maintenance expenses in this scenario relative to Scenario 2.

This scenario, along with Scenario 2, assumes that after the conveyance of SMCHD land parcels to OPD, OPM would no longer earn revenues from associated leases going forward.

In summary, Scenario 1 primarily reflects status quo operations at OPM, including existing slip occupancy rates, slip rates and charges for other services, but with a reduction in lease revenue. Projected operating expenses are largely the same (with the exception of higher dock maintenance costs). The scenario assumes no CIP capital investments.

A. SLIP OCCUPANCY AND RATE PROJECTIONS

Occupancy projections under Scenario 1 are based on historical slip occupancy rates. Any disruption to occupancy associated with construction arising from OPD planned development is anticipated to be temporary (and, as noted previously, applicable to both primary scenarios under consideration in this report). Marina tenants that would be most affected by ongoing construction would be those in live-aboards, who would experience the inconveniences associated with construction on a more frequent basis. However, live-aboards might be unlikely to abandon the marina given the limited availability of live-aboard slips at other marinas in the region and long waiting lists for live-aboard slips at OPM.

The following table summarizes projected slip supply, occupancy rates, and the number of slips occupied annually for each slip size and for the entire marina.

Exhibit 9. Projected Slip Supply & Annual Occupancy by Slip Size, FY2018 – FY2026

Slip Size Range	Slip Supply	Projected Occupancy Rate	Number of Slips Occupied
30' and below	195	72%	141
31' to 40'	106	83%	88
41' to 50'	73	85%	62
51' to 60'+	34	65%	22
Totals	408	77%	313

Slip rental rates are projected based on the current approved rates for FY2018 plus annual adjustments for inflation, using a projected annual inflation rate of 2.8%, based on recent increases in the U.S. BLS Consumer Price Index (CPI) for the San Francisco-Oakland-San Jose area.

The following table summarizes projected slip rates for each size slip over the next ten years.

Exhibit 10. Projected Slip Rates by Slip Size, FY2018 – FY2027

Slip Size	2018: Year 1		2022: Year 5		2027: Year 10	
	<i>Single</i>	<i>Double</i>	<i>Single</i>	<i>Double</i>	<i>Single</i>	<i>Double</i>
16' and Under	\$54.00	\$81.00	\$60.31	\$90.46	\$69.24	\$103.85
26'	n/a	\$216.00	n/a	\$241.23	n/a	\$276.94
30'	\$238.00	\$249.00	\$265.80	\$278.08	\$305.15	\$319.25
36'	\$287.00	\$297.00	\$320.52	\$331.69	\$367.98	\$380.80
40'	\$330.00	\$341.00	\$368.54	\$380.83	\$423.11	\$437.21
45'	\$368.00	\$384.00	\$410.98	\$428.85	\$471.83	\$492.34
50'	\$411.00	\$427.00	\$459.00	\$476.87	\$526.96	\$547.48
55'	n/a	\$470.00	n/a	\$524.89	n/a	\$602.61
60'	\$492.00	\$514.00	\$549.46	\$574.03	\$630.82	\$659.02

B. REVENUE PROJECTION

1. Projected Slip Revenue

We project slip revenue by multiplying the number of occupied slips in each size category by the respective projected slip rate for that size slip in each year. Under Scenario 1, occupancy is projected to remain constant at current levels of 77%, or approximately 313 slips occupied, until expiration of the JPA in 2026. The current rental rates are projected to increase with inflation. Therefore, projected slip revenues increase based on increases in slip rental rates, not due to increases in occupancy (demand).

The following table summarizes projected slip revenues for Scenario 1.

Exhibit 11. Scenario 1: Projected Slip Revenues, FY2018 to FY2027

Fiscal Year	2018	2019	2020	2021	2022
Total Slips Occupied	313	313	313	313	313
Ave. Monthly Revenue/Occ. Slip	\$304.50	\$313.02	\$321.81	\$330.80	\$340.07
Total Slip Revenue	\$1,143,700	\$1,175,700	\$1,208,700	\$1,242,500	\$1,277,300
Fiscal Year	2023	2024	2025	2026	2027
Total Slips Occupied	313	313	313	313	313
Ave. Monthly Revenue/Occ. Slip	\$349.57	\$359.37	\$369.44	\$379.79	\$390.42
Total Slip Revenue	\$1,313,000	\$1,349,800	\$1,387,600	\$1,426,500	\$1,466,400

2. Projected Other Revenues

All other revenues include revenues from landside leases, transient dockage, launching fees, dock box fees, and miscellaneous other revenues, which were presented in Section II of this report.

Lease Revenue. SMCHD staff report that revenues generated by the four leases conveyed to OPD totaled \$238,000 per year. Therefore, these historic lease revenues are not included in our projections. We assume that the Yacht Club lease will remain in place over the ten year projection. After making the adjustment for loss of revenues from the conveyed parcels, Dornbusch estimates that OPM will generate approximately \$73,000 annually in lease revenues. We do not include revenue from the 40,000 square foot commercial parcel in our projections.

Transient Dockage Revenue. Dornbusch projects transient dockage revenues based on the most recent year revenues (FY2015) of nearly \$80,000, plus annual inflationary increases of 2.8% per year.

Launching Fee Revenue. Dornbusch projects launching fee revenues based on the most recent year revenues (FY2015) of nearly \$23,000, plus annual inflationary increases of 2.8% per year.

Dock Box Fee Revenue. Dornbusch projects dock box fee revenues based on the most recent year revenues (FY2015) of approximately \$6,500, plus annual inflationary increases of 2.8% per year.

All Other Revenues. Dornbusch projects all other miscellaneous revenues based on the most recent year revenues (FY2015) of approximately \$17,000, plus annual inflationary increases of 2.8% per year.

Exhibit 12. Projected Total OPM Revenues, FY2018 to FY2027

Fiscal Year	2018	2019	2020	2021	2022
Slip Rental	\$1,143,700	\$1,175,700	\$1,208,700	\$1,242,500	\$1,277,300
Transient Dockage	\$86,800	\$89,200	\$91,700	\$94,200	\$96,900
Leases	\$73,300	\$75,400	\$77,500	\$79,700	\$81,900
Launching Fees	\$24,600	\$25,200	\$26,000	\$26,700	\$27,400
Dock Box Fees	\$7,000	\$7,200	\$7,400	\$7,600	\$7,800
Other Revenues	\$18,300	\$18,800	\$19,300	\$19,800	\$20,400
Total OPM Revenue	\$1,353,700	\$1,391,500	\$1,430,600	\$1,470,500	\$1,511,700
Fiscal Year	2023	2024	2025	2026	2027
Slip Rental	\$1,313,000	\$1,349,800	\$1,387,600	\$1,426,500	\$1,466,400
Transient Dockage	\$99,600	\$102,400	\$105,300	\$108,200	\$111,200
Leases	\$84,200	\$86,600	\$89,000	\$91,500	\$94,000
Launching Fees	\$28,200	\$29,000	\$29,800	\$30,600	\$31,500
Dock Box Fees	\$8,000	\$8,300	\$8,500	\$8,700	\$9,000
Other Revenues	\$21,000	\$21,500	\$22,200	\$22,800	\$23,400
Total OPM Revenue	\$1,554,000	\$1,597,600	\$1,642,400	\$1,688,300	\$1,735,500

C. EXPENSE PROJECTION

This section presents projected operating expenses at OPM, based primarily on average expenses over FY2014 and FY2015, plus adjustments for inflation. This section also presents projected annual depreciation expenses, based on input provided by SMCHD staff.

1. Projected Operating Expenses

The following exhibit summarizes projected OPM operating expenses in FY2018 compared to actual marina operating expenses in FY2015, the most recent year for which financial data is available.

Exhibit 13. Oyster Point Marina – Annual Operating Expenses, Projected vs Actual Expenses

	Actual FY2015	Projected FY2018	% Change
Advertising and promotion	\$5,400	\$5,800	8.6%
Auto expenses	\$300	\$300	8.6%
Bad debts	\$32,100	\$34,900	8.6%
Bank charges	\$15,400	\$16,800	8.6%
Contractual services	\$211,000	\$229,300	8.6%
Dues and subscriptions	\$200	\$220	8.6%
Insurance	\$123,600	\$134,200	8.6%
Office expense	\$5,100	\$10,000	96.3%
Personnel expenses	\$200	\$300	8.6%
Postage	\$2,900	\$3,200	8.6%
Equipment rental	\$2,600	\$2,800	8.6%
Operating expenses	\$30,600	\$41,500	35.8%
Repairs and maintenance	\$54,700	\$74,300	35.8%
Salaries and benefits	\$1,068,100	\$1,450,000	35.8%
Telephone and communications	\$18,300	\$19,800	8.6%
Training & professional development	\$4,600	\$5,000	8.6%
Travel, conferences and meetings	\$400	\$500	8.6%
Uniforms	\$7,200	\$7,900	8.6%
Utilities	\$108,500	\$117,900	8.6%
Vessel destruction	\$85,500	\$59,600	-30.4%
Total Operating Expenses	\$1,776,700	\$2,214,200	24.6%

Dornbusch projected expenses based primarily on expense levels during the most recent two years for which data was available plus annual increases for inflation. Where there were significant annual fluctuations in historical expense line items between years, Dornbusch used averages to reflect a more stabilized expense level. Dornbusch projected annual Repair & Maintenance expenses (including the “operating expenses” line item) to be 25% higher over the next 10 years compared to recent historical levels due to the anticipated greater expenditures necessary to maintain aging docks in a functional condition until the expiration of the JPA in 2026.

The doubling of the office expense line item is due to the fact that the FY2015 reported expense was lower than it was in previous years. Similarly, the vessel destruction line item projection is lower

because that expense varied significantly from year to year, with FY2015 being higher than in earlier years. Note that SMCHD does not undertake vessel destruction unless DBW funds are in place.

As discussed previously, the largest projected expense line items include labor, projected at \$1.45 million in FY2018, contract services (\$229,000), insurance (\$134,000) and utilities (\$118,000). Dornbusch projects total FY2018 expenses to be 24.6% higher compared to FY2015 expenses, and projects these expenses to increase annually by inflation.

The following exhibit summarizes projected OPM operating revenues, expenses and net operating income over the next ten years under Scenario 1.

Exhibit 14. Oyster Point Marina Projected Net Operating Income, Scenario 1

	2018	2019	2020	2021	2022
Total Operating Revenues	\$1,353,700	\$1,391,500	\$1,430,600	\$1,470,500	\$1,511,700
Total Operating Expenses	\$2,214,100	\$2,276,100	\$2,333,700	\$2,399,000	\$2,466,200
Net Operating Income	-\$860,500	-\$884,600	-\$903,200	-\$928,500	-\$954,500
	2023	2024	2025	2026	2027
Total Operating Revenues	\$1,554,000	\$1,597,600	\$1,642,400	\$1,688,300	\$1,735,500
Total Operating Expenses	\$2,535,200	\$2,606,200	\$2,679,200	\$2,754,200	\$2,831,300
Net Operating Income	-\$981,200	-\$1,008,600	-\$1,036,900	-\$1,065,900	-\$1,095,800

For Scenario 1, Dornbusch projects an average annual net operating loss of approximately \$972,000 for OPM. For comparison, the marina recorded a net operating loss of \$269,000 in FY2015 and an average annual loss of \$192,000 between 2011 and 2015. The larger projected losses are due to the loss of the landside lease revenues, higher labor costs, and higher projected repair & maintenance costs to sustain aging docks.

2. Projected Depreciation Expense

SMCHD provided details about projected depreciation expense for OPM given the assets in place as of August 2017. The following table provides a breakdown of depreciation expense by asset type.

Exhibit 15. Annual Depreciation by Asset Type, OPM (Depreciation of Existing Assets)

Asset Type	Annual Depreciation Expense
Docks	\$208,000
Breakwater	\$191,000
Launch Ramps	\$110,000
Buildings and Improvements	\$60,000
Parking Lots	\$21,000
Walkways and Paths	\$13,000
Piers	\$12,000
Machinery and Equipment	\$9,000
Autos and Trucks	\$3,000
Total	\$627,000

Annual depreciation of existing assets is forecast to be roughly this amount (\$627,000) annually through at least the next five years (through FY2022), according to depreciation schedules provided to Dornbusch. We do not have depreciation schedules beyond that point, but to be conservative, Dornbusch projects annual depreciation at this amount through the end of the ten-year forecast period.

D. PROJECTED NET INCOME

The following exhibit summarizes projected OPM net income (net operating income less depreciation) for Scenario 1. Again, these projections assume no CIP investments and no funding contributions from other sources (such as county property tax revenues, DBAW grants or SMCHD reserve funds). Viewing the OPM operation from this perspective is important as it defines the magnitude of the shortfall in net income (i.e. annual losses) that would need to be made up by these other sources.

Exhibit 16. Oyster Point Marina Projected Net Income, Scenario 1

	2018	2019	2020	2021	2022
Total Operating Revenues	\$1,353,700	\$1,391,500	\$1,430,600	\$1,470,500	\$1,511,700
Total Operating Expenses	\$2,214,100	\$2,276,100	\$2,333,700	\$2,399,000	\$2,466,200
Net Operating Income	-\$860,500	-\$884,600	-\$903,200	-\$928,500	-\$954,500
<i>Depreciation</i>	\$627,000	\$627,000	\$627,000	\$627,000	\$627,000
Net Income	-\$1,487,500	-\$1,511,600	-\$1,530,200	-\$1,555,500	-\$1,581,500
	2023	2024	2025	2026	2027
Total Operating Revenue	\$1,554,000	\$1,597,600	\$1,642,400	\$1,688,300	\$1,735,500
Total Operating Expenses	\$2,535,200	\$2,606,200	\$2,679,200	\$2,754,200	\$2,831,300
Net Operating Income	-\$981,200	-\$1,008,600	-\$1,036,900	-\$1,065,900	-\$1,095,800
<i>Depreciation</i>	\$627,000	\$627,000	\$627,000	\$627,000	\$627,000
Net Income	-\$1,608,200	-\$1,635,600	-\$1,663,900	-\$1,692,900	-\$1,722,800

The table indicates that under Scenario 1, OPM averages annual net losses of approximately \$1.60 million.

Unlike operating expenses, depreciation is not a cash expense, and therefore annual operating cash flows are equivalent to projected net *operating* income (not net income after depreciation). This is important to note when we discuss the additional depreciation expense related to projected CIP investments in Scenario 2, which must be offset by additional operating income if the investments are to be sustainable over the long term. **In other words, cash flows from operations going forward must be sufficient to build up a reserve that would allow OPM to re-invest in all assets when they reach the end of their useful lives.**

The following exhibit compares operating revenues, expenses, net operating income, depreciation and net income between FY2015 actuals and those projected for FY2018 under Scenario 1, given the assumptions detailed in this section.

Exhibit 17. OPM Actual vs. Projected Scenario 1 Revenues, Expenses, and Net Income

	FY2015 Actual	FY2018 Projected	Change: Projected less Actual
Total Operating Revenues	\$1,507,600	\$1,353,700	-\$153,900
Total Operating Expenses	\$1,776,700	\$2,214,100	\$437,400
Net Operating Income	-\$269,100	-\$860,500	-\$591,400
<i>Depreciation</i>	<i>\$1,062,800</i>	<i>\$627,000</i>	-\$435,800
Net Income	-\$1,331,900	-\$1,487,500	-\$155,600

In summary, the table indicates that operating revenues under Scenario 1 are projected to decline by nearly \$154,000 in FY2018 compared to FY2015, which is primarily explained by the loss of landside lease revenues. Increases in slip rates and slip revenues in FY2018 are expected to help offset some of the lost lease revenues. Operating expenses are projected to increase by nearly \$437,000 compared to FY2015 levels, primarily reflecting increased labor expense and inflationary expense increases, but also increases in projected repair and maintenance costs to sustain aging docks at the marina. Therefore, the reduction in net operating income (or rather, the increasing net operating loss) over this period is approximately \$590,000.

Projected depreciation under Scenario 1 is more than \$400,000 less than reported depreciation in 2015. OPM net income is projected to be approximately \$156,000 lower in 2018 than it was in 2015.

V. SCENARIO 2: UNDERTAKE CAPITAL IMPROVEMENT PROGRAM

Scenario 2 assumes that OPM undertakes the CIP, including all investments detailed below in Part A of this section. We present assumptions and financial results for this scenario, and then analyze whether the change in operating cash flows as compared to Scenario 1 justifies the investment in new assets from a financial standpoint. Also taken into consideration in this analysis is the current JPA language, and specifically the terms of the agreement related to its termination and transfer of assets between parties. Based on the analysis, we make recommendations about a possible extension of the JPA term, as well as changes to terms of the existing JPA.

A. SUMMARY OF CIP

Proposed CIP investments for OPM, as well as the projected timing of those investments, are summarized in the following table.

Exhibit 18. Oyster Point Marina CIP Investments and Timing

Fiscal Year/Project	Amount
2018	
Replace Dock 12	\$1,355,000
Dredging	\$501,500
Remove Bait Shop	\$60,000
40,000 s.f. Commercial Parcel Planning	\$25,000
Culvert Catch Basin Filtration/Separators	\$20,000
Feasibility Consult for Harbormaster Building	\$15,000
Total 2018	\$1,976,500
2019	
Replace Dock 13	\$1,330,000
40,000 s.f. Commercial Parcel Site Work	\$1,000,000
Electric Vehicle	\$15,000
Total 2019	\$2,345,000
2020	
Replace Dock 14	\$1,330,000
Replace Dock 7	\$1,330,000
Total 2020	\$2,660,000
2021	
Replace Dock 1	\$1,200,000
Replace Harbormaster Building	\$400,000
Total 2021	\$1,600,000
2022	
Replace Dock 2	\$1,200,000
Guide Piles Throughout-Maint. And Extension	\$150,000
Total 2022	\$1,350,000
2023 and Beyond	
Replace Docks 3, 4, 5, and 6	\$4,800,000
Breakwater Elevation Increase (USACE?)	\$2,000,000
Total 2023 and Beyond	\$6,800,000

The total estimated cost of the CIP for Oyster Point Marina is \$16,731,500 including all of the projects listed in the table. Dock replacement accounts for \$12,545,000, or 75% of the total.

Over the first five years of the CIP (through 2022), the total cost of the CIP is \$9,931,500. Of this amount, \$7,745,000 is for dock replacement, or about 78% of the total over that period. Note that there is ambiguity regarding the timing of replacing Dock 7, which has historically been operated by Drakes Marine, not OPM. SMCHD developed the CIP assuming Dock 7 would be replaced in FY2020 ahead of Docks 1-6. For consistency we model replacement of Dock 7, which consists of approximately 18 45-foot slips and 22 36-foot (total of 40 slips), according to the timing identified in the CIP. Since Dock 7 has not contributed to OPM's slip rental revenue in recent years, adding Dock 7 to the rentable slip inventory would create an expanded source of OPM slip rental revenue.

SMCHD staff indicated that the cost estimates for future dock replacement are based on actual costs of the replacement of Dock 11 in 2013. Dock 8 (guest dock) was also replaced in 2013. SMCHD contracted with Bellingham Marine for the construction of Docks 11 and 8. Bellingham Marine's scope of work included demolition of the existing docks and the design, manufacture and installation of the marina's new floating dock system. The existing timber dock systems were replaced with Bellingham Marine's concrete floating docks, including upgraded utility connections and accessories.

Demolition of Docks 11 and 8 began in January 2013. Dock 11 was replaced with a 332-foot long main walk with 24 single berth slips for boats up to 45 feet. A match-cast 21 x 79-foot floating platform was built at the bottom of the new 80-foot gangway to support traffic moving on and off the dock. The landing platform also provides additional moorage space. The cost for replacing Dock 11 was \$1.47 million.

The new guest dock (Dock 8) provides 156 feet of side-tie moorage and is made accessible with a new 90-foot ADA gangway. Power and potable water are available on the dock for visiting boaters. The cost for replacing Dock 8 was approximately \$503,000. The docks to be replaced in the CIP are all larger than Dock 8.

Given these actual costs, the projected CIP costs for the replacement of the remaining docks appear to be in a reasonable range.

New docks have an estimated useful life of 30 years, so in the financial model they are depreciated on a 30-year, straight-line basis, beginning in the year following their installation. A projected depreciation schedule is presented in the Excel financial model. We assume a 30-year useful life for all of the docks that would be replaced under the CIP.

B. FUNDING SOURCES FOR CIP INVESTMENTS

SMCHD projects that most of the CIP investments at OPM will be funded through existing reserves and SMCHD operating income. According to the District's FY2018 Final Budget, estimated cash reserves are \$13,407,363 after CIP expenditures in that year.

SMCHD projects total District operating cash flow of approximately \$3,578,000 annually through FY2022, reduced by \$750,000 in FY2019 and FY2021 due to commissioner election expenses in those years. This projection of operating cash flow for the District as a whole includes annual county tax revenues and is based on actual 2015 data.

Cash reserves have historically been calculated for the District as a whole (not separately for OPM and Pillar Point Harbor), and given SMCHD projections of operating cash flows and CIP expenditures for both marinas, cash reserves would decline to a low of approximately \$9.6 million in FY2021. This reserve calculation takes into account both projected CIP expenditures at OPM (\$9.9 million through FY2022) and Pillar Point Marina (\$26 million through FY2022), as well as projected grant funding of \$12,950,000 through FY2022. Most of the projected grant funding is assumed to cover the cost of projects at Pillar Point.

It is important to note that SMCHD is not proposing debt funding for these projects. The District has paid off its previous debts and plans to fund the CIP projects through existing reserves and operating cash flows. Our analysis is based on the assumption that, going forward, OPM (and SMCHD as a whole) should be able to build up sufficient reserves to re-invest in dock replacement when the new CIP docks reach the end of their useful lives in 30 years, without the need for debt financing at that time.

C. OCCUPANCY PROJECTIONS WITH DOCK REPLACEMENT

This section presents projected Scenario 2 slip occupancy rates, before and after dock replacements. Dornbusch estimates that slip occupancy rates will increase slightly following dock replacement, primarily due to the fact that new, higher quality docks will be more desirable compared to existing docks, which are approaching the end of their useful lives.

The newly-replaced Dock 11 is currently at effectively 100% occupancy, and has the highest occupancy rate in the entire marina. This demonstrates that there is relatively higher demand for new, upgraded slips. OPM staff have also indicated that most new prospective tenants first inquire about slip availability at Dock 11 before moving on to available slips on other docks. Prospective tenants are reportedly attracted to the fact that these docks are the newest in the marina and are of high quality construction.

Other marinas nearby (Brisbane, Oyster Cove, and Coyote Point Marinas) have reportedly not had recent extensive capital improvements and dock upgrades, so Oyster Point's new slips would be relatively attractive to boaters considering options in the area.

The following table summarizes 2016 occupancy rates at other marinas in San Mateo and San Francisco counties.

Exhibit 19. Slip Occupancy Rates at Area Marinas

Marina	2016 Occupancy Rate
Oyster Cove Marina	84%
Brisbane Marina	80%
Coyote Point Marina	78%
South Beach Harbor	100%
Bair Island Marina	99%
Pier 39 Marina	88%
Port of Redwood City Marina	93%
Redwood Landing Marina	50%
San Francisco Marina - West Harbor	89%
San Francisco Marina - East Harbor	78%
Treasure Isle Yacht Harbor	80%
Westpoint Harbor	62%
Average Occupancy Rate – All Marinas	82%
Oyster Point Marina Occupancy Rate	77%

OPM’s most direct competitors in terms of proximity, level of amenities and access to regional attractions include Oyster Cove Marina, Brisbane Marina and Coyote Point Marina. Occupancy rates for these marinas range between 78% and 84% and average 81%, compared to OPM’s current occupancy of 77%. Similar to OPM, these competing marinas are reportedly older with aging docks and associated support facilities.

Dornbusch judges that with new docks and upgraded landside amenities associated with the planned CIP improvements, OPM will be more desirable and experience moderate increases in occupancy rates, bringing the marina into line with occupancy rates that are closer those achieved in the regional market.

For these reasons, after dock replacements, the occupancy projections in Scenario 2 are higher than they are in Scenario 1.

The following table summarizes projected occupancy rates for given slip size ranges both before and after dock replacement under this scenario. Our financial model has the flexibility to change occupancy rates on a dock-by-dock basis, which enables these detailed assumptions about occupancy.

Exhibit 20. Projected OPM Slip Occupancy Rates Before and After Dock Replacement, Scenario 2

	Slip Occupancy Before Dock Replacement	Slip Occupancy After Dock Replacement	Percentage Point (PP) Change
Occupancy Rate, 30' and below	72%	77%	+ 5.0 PP
Occupancy Rate, 31' to 40'	83%	93%	+ 10.0 PP
Occupancy Rate, 41' to 50'	85%	95%	+ 10.0 PP
Occupancy Rate, 51' to 60' +	65%	70%	+ 5.0 PP
Overall Marina Occupancy	77%	83%	+ 6.0 PP

The table indicates projected occupancy rates for slips 30’ and below and slips 51’ and greater to be five percentage points higher after slips in these size ranges are replaced. Slips 31’ to 50’ in length, which are generally in higher demand, are projected to experience a ten-percentage point increase in

occupancy. The resulting increase in overall marina occupancy once all docks are replaced is six percentage points, from 77% (existing occupancy) to 83%. Note that the projected post-dock replacement occupancy rate of 83% is slightly lower than the current occupancy rate at Oyster Cove Marina (84%), one of OPM’s main competitors, but slightly higher than the current occupancy rates at Brisbane Marina and Coyote Point Marina, at 80% and 78%, respectively. In addition, the projected Scenario 2 post-dock replacement occupancy rate for OPM of 83% is nearly identical to the current average occupancy rate for regional marinas in San Francisco and San Mateo counties.

Dornbusch assumes that, on average, one dock is replaced every year over the next ten years according to the CIP and based on input provided by SMCHD staff. The financial analysis assumes that improvements in occupancy occur in the year following the year in which a dock is replaced, and also takes into account construction time when the dock is off-line and the potential lag time necessary to market the new docks.

Given the overall current occupancy rate at OPM of 77%, and the fact that an average of only one dock would be replaced each year under the CIP, the model assumes that OPM could accommodate most (if not all) of the slip holders who would be temporarily displaced during the replacement of their current dock. The total number of occupied slips would therefore not change significantly during dock replacement; slip renters would just be shifted to other docks in the marina.

The following exhibit summarizes the phasing of dock replacements at OPM per the CIP and input from SMCHD staff.

Exhibit 21. Assumed Phasing and Capital Cost of Dock Replacements at OPM

Fiscal Year	Docks Replaced	Slips Replaced	Dock Replacement Cost
2018	Dock 12	41 slips	\$1,355,000
2019	Dock 13	37 slips	\$1,330,000
2020	Dock 14 & Dock 7	58 slips	\$2,660,000
2021	Dock 1	29 slips	\$1,200,000
2022	Dock 2	53 slips	\$1,200,000
2023	Dock 3	53 slips	\$1,200,000
2024	Dock 4	56 slips	\$1,200,000
2025	Dock 5	50 slips	\$1,200,000
2026	Dock 6	47 slips	\$1,200,000
Totals	10 Docks	424 Slips*	\$12,545,000

*This includes replacement of approximately 40 slips on Dock 7 that historically have not been part of the OPM operation. Therefore, the total new slip count at the marina will be 448 slips when Dock 7 is included. Dock 11 and Dock 8 (24 slips total) were replaced recently in 2013.

D. RATE PROJECTIONS WITH DOCK REPLACEMENT

Scenario 2 assumes that OPM will be able to charge higher rates for newly replaced slips as compared to existing older slips.

SMCHD provided Dornbusch a 2017 rate survey of 43 Bay Area marinas that includes useful information about where OPM slip rental rates fall within the current range of slip rates in the regional marina market. The survey presents average monthly slip rental rates *per linear foot* for all marinas. The following table summarizes the high, low, and median slip rental rates for public marinas in the survey, private marinas, and the entire set of 43 marinas surveyed.

Exhibit 22. Range of Slip Rental Rates (per linear foot) for Surveyed Marinas

Rate Range	Public Marinas	Private Marinas	All 43 Marinas
Low Rate	\$6.28	\$5.14	\$5.14
Median Rate	\$8.08	\$9.61	\$8.97
High Rate	\$13.21	\$14.07	\$14.07

OPM’s average rate per linear foot was \$8.11, which is lower than the median rate for all marinas (\$8.97), but almost the same as the median for publicly operated marinas (\$8.08).

Dornbusch also considered data from a recent 2016 OPM Market Analysis conducted by Anchor QEA for the City of South San Francisco, which estimated potential rate increases associated with replacing docks and making various landside capital improvements, which are partially reflected in the CIP. The rate projections specified in the 2016 Market Analysis appear largely based on average slip rates at competing marinas in San Mateo and San Francisco counties. Dornbusch utilized the rates estimated in this Market Analysis to project slip revenues from newly replaced docks in Scenario 2.

The following table summarizes average projected slip rates for given slip sizes both before and after replacement under this scenario. The projections of slip rates after dock replacement come from the 2016 Anchor QEA Market Analysis.

Exhibit 23. Projected Monthly Slip Rates per Linear Foot Before and After Dock Replacement (\$2017)

Slip Size	Slip Rates Before Dock Replacement	Slip Rates After Dock Replacement	Percentage Change
26 Foot	\$8.31	\$8.83	6.3%
30 Foot	\$8.28	\$9.57	15.6%
36 Foot	\$8.19	\$10.40	27.0%
40 Foot	\$8.53	\$11.41	33.8%
45 Foot +	\$8.50	\$11.84	39.3%
Weighted Average	\$8.33	\$10.52	26.2%

The table indicates that on average slip rates per linear foot are projected to increase by approximately 26% after replacement to new slips, from an average rate of \$8.33 per foot to \$10.52 per foot, which is roughly 17% higher than the prevailing median rate of \$8.97 for *all* marinas in the Bay Area. **These projected rates are quite high and represent a “best case scenario” from a revenue perspective. We also consider more moderate rate increases in Scenario 2%.**

E. REVENUE PROJECTION

The following table presents projected OPM operating revenue under Scenario 2, with slip rental revenue based on the higher occupancy rate and slip rental rate assumptions described above.

Exhibit 24. Scenario 2: Projected Total OPM Operating Revenues, FY2018-FY2027

	2018	2019	2020	2021	2022
Slip Rental	\$1,143,700	\$1,243,900	\$1,375,500	\$1,676,700	\$1,740,000
Transient Dockage	\$86,800	\$89,200	\$91,700	\$94,200	\$96,900
Leases	\$73,300	\$75,400	\$77,500	\$79,700	\$81,900
Launching Fees	\$24,600	\$25,200	\$26,000	\$26,700	\$27,400
Dock Box Fees	\$7,000	\$7,200	\$7,400	\$7,600	\$7,800
Other Revenues	\$18,300	\$18,800	\$19,300	\$19,800	\$20,400
Total OPM Revenue	\$1,353,700	\$1,459,700	\$1,597,400	\$1,904,700	\$1,974,400
	2023	2024	2025	2026	2027
Slip Rental	\$1,818,900	\$1,900,700	\$1,987,700	\$2,118,600	\$2,270,300
Transient Dockage	\$99,600	\$102,400	\$105,300	\$108,200	\$111,200
Leases	\$84,200	\$86,600	\$89,000	\$91,500	\$94,000
Launching Fees	\$28,200	\$29,000	\$29,800	\$30,600	\$31,500
Dock Box Fees	\$8,000	\$8,300	\$8,500	\$8,700	\$9,000
Other Revenues	\$21,000	\$21,500	\$22,200	\$22,800	\$23,400
Total OPM Revenue	\$2,059,900	\$2,148,500	\$2,242,500	\$2,380,400	\$2,539,400

The following table compares revenue projections for Scenario 2 to Scenario 1.

Exhibit 25. Comparison of Projected Revenues – Scenario 1 vs. Scenario 2

	SCENARIO 1: STATUS QUO			SCENARIO 2: REPLACE DOCKS			\$ CHANGE
	Slip Revenue	All Other Revenue	Total Revenue	Slip Revenue	All Other Revenue	Total Revenue	Total Revenue
2018	\$1,143,700	\$210,000	\$1,353,700	\$1,143,700	\$210,000	\$1,353,700	\$0
2019	\$1,175,700	\$215,800	\$1,391,500	\$1,243,900	\$215,800	\$1,459,700	+\$68,200
2020	\$1,208,700	\$221,900	\$1,430,600	\$1,375,500	\$221,900	\$1,597,400	+\$166,800
2021	\$1,242,500	\$228,000	\$1,470,500	\$1,676,700	\$228,000	\$1,904,700	+\$434,200
2022	\$1,277,300	\$234,400	\$1,511,700	\$1,740,000	\$234,400	\$1,974,400	+\$462,700
2023	\$1,313,000	\$241,000	\$1,554,000	\$1,818,900	\$241,000	\$2,059,900	+\$505,900
2024	\$1,349,800	\$247,800	\$1,597,600	\$1,900,700	\$247,800	\$2,148,500	+\$550,900
2025	\$1,387,600	\$254,800	\$1,642,400	\$1,987,700	\$254,800	\$2,242,500	+\$600,100
2026	\$1,426,500	\$261,800	\$1,688,300	\$2,118,600	\$261,800	\$2,380,400	+\$692,100
2027	\$1,466,400	\$269,100	\$1,735,500	\$2,270,300	\$269,100	\$2,539,400	+\$803,900
Totals	\$12,991,200	\$2,384,600	\$15,375,800	\$17,276,000	\$2,384,600	\$19,660,600	+\$4,284,800

The table shows that projected Scenario 2 revenue exceeds Scenario 1 revenue in each year of the projection, as a result of higher assumed occupancy and slip rental rates after dock replacement. The difference in projected revenue between the two scenarios grows incrementally over time, reflecting dock replacements in different years. The large increase in 2021 is due to the replacement of two docks

in the previous year, including Dock 7. Dock 7 provides a new source of slip rental revenue (estimated at \$214,000 in 2020) that is not reflected in OPM’s historical financials.

F. EXPENSE PROJECTION

The following table compares projected annual operating expenses at OPM under Scenarios 1 and 2. Operating expenses are slightly lower under Scenario 2 as compared to Scenario 1, due to lower projected recurring maintenance expense. Note that this table does not include capital expenditures or depreciation associated with the CIP.

Exhibit 26. Comparison of Projected Operating Expenses – Scenario 1 vs. Scenario 2

FISCAL YEAR	SCENARIO 1 Operating Expenses	SCENARIO 2 Operating Expenses	Dollar Change (Scenario 2 less Scenario 1)
2018	\$2,214,100	\$2,167,700	-\$46,400
2019	\$2,276,100	\$2,228,500	-\$47,600
2020	\$2,333,700	\$2,284,800	-\$48,900
2021	\$2,399,000	\$2,348,700	-\$50,300
2022	\$2,466,200	\$2,414,500	-\$51,700
2023	\$2,535,200	\$2,482,000	-\$53,200
2024	\$2,606,200	\$2,551,500	-\$54,700
2025	\$2,679,200	\$2,623,000	-\$56,200
2026	\$2,754,200	\$2,696,500	-\$57,700
2027	\$2,831,300	\$2,772,000	-\$59,300

Expense savings are estimated at an average of \$52,600 per year, or slightly more than 2% of Scenario 1 operating expenses.

G. OPERATING INCOME PROJECTION

The following table compares projected OPM net operating income (operating revenues less operating expenses) at OPM under Scenarios 1 and 2.

FISCAL YEAR	SCENARIO 1 Net Operating Income	SCENARIO 2 Net Operating Income	Dollar Change (Scenario 2 less Scenario 1)
2018	-\$860,500	-\$814,200	+ \$46,300
2019	-\$884,600	-\$768,800	+ \$115,800
2020	-\$903,200	-\$687,400	+ \$215,800
2021	-\$928,500	-\$443,900	+ \$484,600
2022	-\$954,500	-\$440,100	+ \$514,400
2023	-\$981,200	-\$422,200	+ \$559,000
2024	-\$1,008,600	-\$403,100	+ \$605,500
2025	-\$1,036,900	-\$380,600	+ \$656,300
2026	-\$1,065,900	-\$316,000	+ \$749,900
2027	-\$1,095,800	-\$232,500	+ \$863,300

Under Scenario 2, the annual net operating loss is reduced as compared to Scenario 1, by an average of \$481,000 per year over the first ten years of the projection. Again, the figures in this table are exclusive of annual capital investments and depreciation. Depreciation is discussed in the following subsection.

H. DEPRECIATION PROJECTION

As discussed in Scenario 1, annual depreciation of *existing* OPM assets is forecast to be roughly \$627,000 over the next five years, according to depreciation schedules provided by SMCHD. To be conservative, we carry this annual depreciation assumption through the end of the forecast period.

In addition to the depreciation of existing assets, in Scenario 2 we calculate the depreciation of new CIP investments based on projected expenditures and the useful lives of new docks and other assets. Based on useful lives of 30 years for new concrete docks, 20 years for buildings and improvements, and 15 years for dredging, the model calculates annual depreciation on a straight-line basis. The projected depreciation schedule for all assets (existing and CIP) is presented in the following table.

Exhibit 27. Projected Annual Depreciation of OPM Existing & CIP Assets

Year	Depreciation of Existing Assets	Depreciation of CIP Investments	Total Annual Depreciation
2018	\$627,000	\$84,600	\$711,600
2019	\$627,000	\$179,700	\$806,700
2020	\$627,000	\$268,400	\$895,400
2021	\$627,000	\$328,400	\$955,400
2022	\$627,000	\$375,900	\$1,002,900
2023	\$627,000	\$427,900	\$1,054,900
2024	\$627,000	\$479,900	\$1,106,900
2025	\$627,000	\$531,900	\$1,158,900
2026	\$627,000	\$583,900	\$1,210,900
2027	\$627,000	\$635,900	\$1,262,900

Note that depreciation of CIP investments increases rapidly over the first several years of the projection, as large additional investments are completed each year. Depreciation of CIP investments plateaus after 2027, as there are no additional CIP investments planned after that point.

I. NET INCOME AND OPERATING CASH FLOW

The following table presents OPM net income under Scenario 2.

Exhibit 28. Oyster Point Marina Projected Net Income, Scenario 2

	2018	2019	2020	2021	2022
Total Operating Revenues	\$1,353,600	\$1,459,700	\$1,597,300	\$1,904,800	\$1,974,400
Total Operating Expenses	\$2,167,700	\$2,228,500	\$2,284,800	\$2,348,700	\$2,414,500
Net Operating Income	-\$814,200	-\$768,800	-\$687,400	-\$443,900	-\$440,100
Depreciation	\$711,600	\$806,700	\$895,400	\$955,400	\$1,002,900
Net Income	-\$1,525,800	-\$1,575,500	-\$1,582,800	-\$1,399,300	-\$1,443,000
	2023	2024	2025	2026	2027
Total Operating Revenues	\$2,059,900	\$2,148,400	\$2,242,400	\$2,380,400	\$2,539,400
Total Operating Expenses	\$2,482,000	\$2,551,500	\$2,623,000	\$2,696,500	\$2,772,000
Net Operating Income	-\$422,200	-\$403,100	-\$380,600	-\$316,000	-\$232,500
Depreciation	\$1,054,900	\$1,106,900	\$1,158,900	\$1,210,900	\$1,262,900
Net Income	-\$1,477,100	-\$1,510,000	-\$1,539,500	-\$1,526,900	-\$1,495,400

The table indicates that under Scenario 2, OPM averages annual net losses of approximately \$1.51 million, which is slightly better than the projected net loss under Scenario 1.

Unlike operating expenses, depreciation is not a cash expense, and therefore annual operating cash flows are equivalent to projected net operating income (not net income after depreciation).

In this scenario, the additional depreciation expense related to projected CIP investments must be offset by additional operating income if the CIP investments are to be sustainable over the long term. In other words, cash flows from operations going forward, relative to Scenario 1 (the status quo scenario) must be sufficient to build up a reserve that would allow OPM to re-invest in all assets when they reach the end of their useful lives.

The following table presents a comparison of operating cash flows in Scenario 1 and Scenario 2.

Exhibit 29. Comparison of Projected Net Income and Operating Cash Flow – Scenario 1 vs. Scenario 2

	SCENARIO 1: STATUS QUO			SCENARIO 2: REPLACE DOCKS			\$ CHANGE
	Net Income	Add Back Depreciation	Operating Cash Flow	Net Income	Add Back Depreciation	Operating Cash Flow	Operating Cash Flow
2018	-\$1,487,500	\$627,000	-\$860,500	-\$1,525,800	\$711,600	-\$814,200	+ \$46,300
2019	-\$1,511,600	\$627,000	-\$884,600	-\$1,575,500	\$806,700	-\$768,800	+ \$115,800
2020	-\$1,530,200	\$627,000	-\$903,200	-\$1,582,800	\$895,400	-\$687,400	+ \$215,800
2021	-\$1,555,500	\$627,000	-\$928,500	-\$1,399,300	\$955,400	-\$443,900	+ \$484,600
2022	-\$1,581,500	\$627,000	-\$954,500	-\$1,443,000	\$1,002,900	-\$440,100	+ \$514,400
2023	-\$1,608,200	\$627,000	-\$981,200	-\$1,477,100	\$1,054,900	-\$422,200	+ \$559,000
2024	-\$1,635,600	\$627,000	-\$1,008,600	-\$1,510,000	\$1,106,900	-\$403,100	+ \$605,500
2025	-\$1,663,900	\$627,000	-\$1,036,900	-\$1,539,500	\$1,158,900	-\$380,600	+ \$656,300
2026	-\$1,692,900	\$627,000	-\$1,065,900	-\$1,526,900	\$1,210,900	-\$316,000	+ \$749,900
2027	-\$1,722,800	\$627,000	-\$1,095,800	-\$1,495,400	\$1,262,900	-\$232,500	+ \$863,300

Operating cash flows in Scenario 2 are on average \$481,000 higher than in Scenario 1 over the first ten years of the projection.

As noted above, the improvement in operating cash flows must offset the depreciation expense associated with the CIP investments in order for OPM to build up a reserve that would enable it to re-invest in docks in another 30 years when the new docks reach the end of their useful lives. The following table shows how the increased depreciation expense (associated with the CIP) in Scenario 2 compares to the improvement in operating cash flows as compared to Scenario 1.

Exhibit 30. Scenario 2: Depreciation of CIP Investments vs. Improvement in Operating Cash Flows

Fiscal Year	Depreciation of CIP Investments	Improvement in Operating Cash Flows vs. Scenario 1	Difference (Improvement in CF less Depreciation)
2018	\$84,600	+ \$46,300	-\$38,300
2019	\$179,700	+ \$115,800	-\$63,900
2020	\$268,400	+ \$215,800	-\$52,600
2021	\$328,400	+ \$484,600	\$156,200
2022	\$375,900	+ \$514,400	\$138,500
2023	\$427,900	+ \$559,000	\$131,100
2024	\$479,900	+ \$605,500	\$125,600
2025	\$531,900	+ \$656,300	\$124,400
2026	\$583,900	+ \$749,900	\$166,000
2027	\$635,900	+ \$863,300	\$227,400
Averages	\$389,700	\$481,100	\$91,400

The table shows that, over the first ten years of the forecast, the improvement in cash flows under Scenario 2 exceeds the additional depreciation expense associated with CIP investments, by an annual average of approximately \$91,000. **This means that, relative to Scenario 1, OPM could set aside a reserve equivalent to the calculated annual depreciation of its CIP assets, and still have a \$91,000 surplus left over relative to its Scenario 1 operating cash flow.**

This implies that the additional annual cash flows in Scenario 2 can contribute to a reserve that would allow SMCHD to re-invest in new docks when the CIP docks reach the end of their useful lives in 30 years. **In other words, the investment in docks as part of the CIP results in additional annual cash flow that allows for self-sustaining re-investment over time, as compared to Scenario 1.**

Of course, as mentioned previously, these results are contingent on certain assumptions that may or may not come to pass. While we believe, based on evidence from the newly-replaced Dock 11, that the occupancy rates projected in Scenario 2 are reasonable, we are less confident that the optimistic slip rental rates presented by Anchor QEA in their 2016 Market Study can be achieved.

Therefore, in the following subsection we present results for “Scenario 2½,” which assumes that OPM undertakes the CIP as in Scenario 2, but that the slip rental rate assumptions are halfway between the assumptions in Scenario 1 and Scenario 2.

J. SCENARIO 2½ : UNDERTAKE CIP; MODERATE RENTAL RATE INCREASE

Under this scenario, OPM would undertake the CIP and occupancy rates would increase as they do in Scenario 2, but we assume that slip rental rates do not increase as much as assumed in Scenario 2.

The following table presents projected slip rental rates under Scenario 2½. Rate increases in this scenario are only half of the increases presented in Scenario 2.

Exhibit 31. Projected Monthly Slip Rental Rates per Foot Before and After Dock Replacement (\$2017)

Slip Size	Slip Rates Before Dock Replacement	Slip Rates After Dock Replacement	Percentage Change
26 Foot	\$8.31	\$8.57	3.1%
30 Foot	\$8.28	\$8.92	7.8%
36 Foot	\$8.19	\$9.30	13.5%
40 Foot	\$8.53	\$9.97	16.9%
45 Foot +	\$8.50	\$10.17	19.7%
Weighted Average	\$8.33	\$9.42	13.1%

The weighted average rate per linear foot would only increase to \$9.42 in this scenario, which is only 5% higher than the \$8.97 median rate for all 43 marinas in the 2017 Bay Area rate survey.

The following table presents a comparison of projected revenues in Scenario 1 and Scenario 2½.

Exhibit 32. Comparison of Projected Revenue – Scenario 1 vs. Scenario 2½

Fiscal Year	SCENARIO 1 Revenue	SCENARIO 2½ Revenue	Difference
2018	\$1,353,600	\$1,353,600	\$0
2019	\$1,391,500	\$1,433,800	+\$42,300
2020	\$1,430,500	\$1,529,800	+\$99,300
2021	\$1,470,600	\$1,787,300	+\$316,700
2022	\$1,511,700	\$1,848,300	+\$336,600
2023	\$1,554,000	\$1,919,600	+\$365,600
2024	\$1,597,500	\$1,993,400	+\$395,900
2025	\$1,642,300	\$2,071,100	+\$428,800
2026	\$1,688,300	\$2,177,400	+\$489,100
2027	\$1,735,500	\$2,295,900	+\$560,400

On average, Scenario 2½ revenue is approximately \$303,000 higher annually than Scenario 1 revenue over the first 10 years of the projection.

The following table presents a comparison of net operating income (operating cash flows) between Scenario 1 and Scenario 2½.

Exhibit 33. Comparison of Projected Net Operating Income – Scenario 1 vs. Scenario 2½

Fiscal Year	SCENARIO 1 Net Operating Income	SCENARIO 2½ Net Operating Income	Difference
2018	-\$860,500	-\$814,200	+\$46,300
2019	-\$884,600	-\$794,700	+\$89,900
2020	-\$903,200	-\$754,900	+\$148,300
2021	-\$928,500	-\$561,400	+\$367,100
2022	-\$954,500	-\$566,200	+\$388,300
2023	-\$981,200	-\$562,400	+\$418,800
2024	-\$1,008,600	-\$558,200	+\$450,400
2025	-\$1,036,900	-\$551,900	+\$485,000
2026	-\$1,065,900	-\$519,100	+\$546,800
2027	-\$1,095,800	-\$476,000	+\$619,800

While there are net operating losses in each year under both of these scenarios, the annual *improvement* in net operating income averages approximately \$356,000 per year under Scenario 2½ as compared to Scenario 1.

The following table compares the depreciation of CIP investments to the improvement in operating cash flows under Scenario 2½.

Exhibit 34. Scenario 2½: Depreciation of CIP Investments vs. Improvement in Operating Cash Flows

Fiscal Year	Depreciation of CIP Investments	Improvement in Operating Cash Flows vs. Scenario 1	Difference (Improvement in CF less Depreciation)
2018	\$84,600	+\$46,300	-\$38,300
2019	\$179,700	+\$89,900	-\$89,800
2020	\$268,400	+\$148,300	-\$120,100
2021	\$328,400	+\$367,100	\$38,700
2022	\$375,900	+\$388,300	\$12,400
2023	\$427,900	+\$418,800	-\$9,100
2024	\$479,900	+\$450,400	-\$29,500
2025	\$531,900	+\$485,000	-\$46,900
2026	\$583,900	+\$546,800	-\$37,100
2027	\$635,900	+\$619,800	-\$16,100
Averages	\$389,700	+\$356,100	-\$33,600

The table shows that under Scenario 2½, the improvement in operating cash flows over Scenario 1 is **not sufficient to offset the increased depreciation related to CIP investments**. On average, the additional CIP depreciation exceeds the improvement in operating cash flows by \$34,000 annually. This implies that OPM would not be able to build a reserve over time that would be large enough to re-invest in docks in 30 years, wholly through cash flow from operations.

K. COMPARISON OF SCENARIO 2 AND SCENARIO 2½ RESULTS

While the improved operating cash flows in Scenario 2 are sufficient to offset the additional depreciation expense from the CIP and build a reserve for future investments, the operating cash flows in Scenario 2½ fall short. **This shows how sensitive the results are to assumptions, so it is important to understand the level of confidence for each assumption.**

The existence of data showing that the newly-replaced Dock 11 is fully occupied and has a waiting list provides support for assumptions about increasing occupancy rates after dock replacement. The Scenario 2 assumption of an 83% overall occupancy rate *after dock replacement* is only two percentage points higher than the current average occupancy rates at Brisbane, Oyster Cove and Coyote Point Marinas, and the dock replacement would make OPM relatively attractive to boaters.

In contrast, the slip rental rates projected in Scenario 2, based on the Anchor QEA market analysis for new docks, appear quite high relative to market averages, even with relatively high quality facilities. We estimate that OPD improvements will create a more pleasant environment in the long run, which should contribute to higher occupancy rates and justify rate increases above inflation (in combination with new docks). Therefore, we believe a more likely rate trajectory is reflected in Scenario 2½ as compared to Scenario 2. **We can show the results of many alternative combinations of occupancy and rate assumptions at the Scenario Meeting.**

It is also important to note that additional reserves that will be generated through overall SMCHD net income (including county tax revenue) going forward (after CIP expenditures have been made) would likely be sufficient to support significant future investment at OPM. However, analysis of these reserves is outside the scope of this report.

L. RECOMMENDATION FOR EXTENSION OF JPA

Since the Harbor District would want to be able to benefit from the additional revenue and operating cash flows generated by the investment in new docks and other CIP projects, while fully amortizing its investments over their useful lives, under this scenario we would recommend that the JPA be extended approximately 30 years from the midpoint of the CIP. Since roughly half of the CIP investment occurs prior to FY2021 and half occurs after, we recommend that the CIP be extended to around the year 2050. **This recommendation is based on the assumption that the JPA termination clause is written the same way as the current JPA.**

Paragraph 20 of the current JPA states that upon termination, “All assets at the project site paid for from operating revenue shall become the property of the CITY. CITY shall succeed to the depreciation reserve fund which shall be held in trust and used only for capital replacements.”

We recommend that the JPA be amended so that, going forward, SMCHD is compensated for the residual value of any investment it makes in real property and personal property assets that would revert to South San Francisco upon termination of the agreement. The simplest way to determine residual value would be by straight-line depreciation based on installation dates, investment values and the useful lives for different assets described in this report.

With such an amendment, the exact term length of the JPA would not be as critical because SMCHD would be able to receive fair compensation for any investments it makes. For example, a dock replaced five years before the expiration of the JPA would still have 25/30 (83.3%) of its value at JPA expiration, and SSF would compensate SMCHD at that level.

VI. INTERMEDIATE SCENARIO: WHAT LEVEL OF INVESTMENT IS APPROPRIATE IF JPA ENDS IN 2026

It is unlikely that SSF would countenance SMCHD ceasing capital investment at OPM over the next nine years. Allowing docks to deteriorate past their estimated useful lives would violate the spirit (if not the letter) of the existing JPA. However, there is little incentive for SMCHD (outside the potential revenue gains due to possible occupancy and rate increases) to make investments in docks without an extension of the JPA or an amendment as discussed in the previous section.

A. RECOMMENDATION

We recommend that SMCHD push to amend the JPA so that, upon termination or expiration, it is compensated for any investment it makes, based on a depreciation formula that allows for transparent calculations.

VII. KEY FINDINGS AND RECOMMENDATIONS

The following bullet points summarize the key findings of this analysis:

- Some of the impacts of the OPD project on OPM are easily quantifiable (the loss of landside lease revenue due to the conveyance of parcels to OPD), while others are not (potential negative short-term impacts and positive long-term impacts to OPM occupancy and rates).
- Although there are uncertainties, they apply to both Scenario 1 and Scenario 2, and we can still compare operating cash flows between the scenarios while netting out common effects.
- In order to develop an accurate financial model, the CIP for OPM should ideally include all capital investments that will be required of SMCHD related to the fuel dock, sea level/subsidence issues, wave attenuation, and any other infrastructure issues. At present, SMCHD staff believes that investments associated with these issues will be covered primarily by OPD.
- Scenario 1 assumes constant occupancy rates (slightly below the market average), and slip rental rates increasing only by inflation.
- Given Scenario 2 assumptions (higher occupancy and higher rental rates after dock replacement), OPM could set aside a reserve equivalent to the calculated annual depreciation of its CIP assets, and still have an \$91,000 (annual average surplus) left over *relative to its Scenario 1 operating cash flow*. **In other words, the CIP investment in docks results in additional annual cash flow that allows for self-sustaining re-investment over time, as compared to Scenario 1.**
- Scenario 2 represents a very optimistic scenario in terms of revenue potential. While we believe an overall occupancy rate of 83% is achievable, we believe that the rate trajectory in Scenario 2½ is more reasonable than the rate trajectory in Scenario 2.
- We will be able to show alternative combinations of occupancy, rate and investment assumptions in real time with the model during the Scenario Meeting.
- If SMCHD decides to make significant capital investments at OPM, we recommend that the JPA be extended by approximately 30 years, the estimated useful life of new concrete docks.
- We also recommend that the JPA be amended to ensure that SMCHD is compensated for the residual value of its capital investments, preferably using a transparent depreciation formula.