

City of Sacramento

Legislation Text

File #: 2019-01176, **Version:** 1

Title:

Agreement Amendment: Sacramento Marina, South Basin Construction Loan Agreement

File ID: 2019-01176

Location: Sacramento Marina, District 4

Recommendation:

Pass a Motion authorizing the City Manager or the City Manager's designee to execute Amendment No. 7 to the Sacramento Marina, South Basin Construction Loan Agreement with the State of California Department of Boating and Waterways.

Contact: Lucinda Willcox, Program Manager, (916) 808-5052, Department of Public Works

Presenter: None.

Attachments:

1-Description/Analysis

2-Agreement Amendment No. 7 to South Basin Construction Loan Agreement

Description/Analysis

Issue Detail: The Sacramento Marina (the "Marina") is a full-service City-operated facility. The Marina operates as a special revenue fund, which requires the facility to use the revenue it generates to cover its operating and debt service costs. The City has a number of loans for capital improvements at the Marina. The largest of these, the South Basin renovation loan (City Agreement No. 2005-0307) is a \$9 million loan the City received from the State of California Department of Boating and Waterways (DBAW) for a project to implement major improvements at the South Basin of the Marina.

The project included demolition of 40-year old wooden berths and construction of a reconfigured system containing approximately 171 slips and berth covers, installation of gangways, construction of a new restroom, replacement of utilities, dredging, addition of fuel dispensers, construction of a dock connector between the two basins, installation of a fire sprinkler system, and addition of a security system. The original loan \$6.2 million agreement was executed in May 2005 with an initial loan installment of \$850,000; additional amendments and additional loan amounts occurred as the project

proceeded. The City Council approved acceptance of a total loan amount of \$9 million in May 2008. The project was complete in 2010 and officially closed out in 2011.

Completion of the above-mentioned South Basin project coincided with depth of the recession. Occupancy levels at the Marina decreased to approximately 50% and annual revenue fell to approximately \$900,000. When the City's initial loan payments of over \$500,000 became due in 2011, they could not be covered by revenues generated from the Marina as this revenue was needed to cover operating costs and other debts. Due to the timing of completion of the South Basin project and effects of the recession on Marina usage and revenues, the City was only able to make about \$400,000 in loan payments from approximately 2012 through 2018 and a significant amount of deferred interest accumulated.

While Marina occupancy levels and revenues have improved greatly since the recession (occupancy is now approximately 95% and annual revenue has increased to approximately \$1.9 million), Marina revenue is still not sufficient to satisfy the current payment terms of the loan. Accordingly, City staff has worked with DBAW staff to restructure the loan, so the City's payments would increase as other Marina loans are paid off. Once the City has returned to regular payments consistent with the revised agreement, there may be an opportunity to request adjustment of the loan terms from DBAW.

Policy Considerations: Amendment of this Agreement is consistent with the City's Debt Management Policy.

Economic Impacts: Not applicable.

Environmental Considerations:

California Environmental Quality Act (CEQA): On February 22, 2005, the City Council approved a Mitigated Negative Declaration and adopted the Mitigation Monitoring Plan for the Marina South Basin Improvements Project (Resolution No. 2005-108). The project was closed in 2011. Changing the terms of the repayment of the loan for the project will have no effect on the project.

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: The City is not able to meet the payment terms of the loan as currently structured given the extended time period during the recession when the City could only make minimal loan payments. Adopting this amendment will allow the City to make payments with anticipated revenue stream and be in good standing under the loan.

Financial Considerations: The Marina is a special revenue fund in which revenues must offset expenses. In Fiscal Year (FY) 2018/19, the Marina generated \$1.9 million in revenues with \$2.7 million in obligations. The Marina is current on all its debt service payments, except for the South Basin loan with DBAW.

Status of Loan Payments:

- The South Basin renovation was officially completed in 2011.
- The Marina has never generated sufficient revenue to make full payments on the South Basin Loan with DBAW.
- In 2011, the City requested a one-year payment deferral, which was approved by amendment.
- In 2012, the City requested approval for a partial payment of \$204,000 and then requested a two-year payment deferral.
- In FY2017/18, the City made a partial payment of \$200,000.
- In FY2018/19, the City made a partial payment of \$250,000.
- In FY2019/20, the City made a partial payment of \$300,000.
- The loan requires full repayment by 2041 (30 years from final draw), so all deferments result in higher annual payment requirements.

Annual payment requirements would now be approximately \$900,000 under the terms of the original loan agreement. Since 2017, the City began making partial payments on the loan, with \$200,000 in FY2017/18, \$250,000 in FY2018/19, and \$300,000 in FY2019/20.

Retirement of other loans will allow the City to make increasingly larger payments toward the South Basin loan. The proposed loan restructure agreed to with DBAW staff provides for gradually increasing annual payments based on estimated revenues, assuming modest annual growth (2%) and a 10% to 15% reserve to cover needed maintenance repairs or declines in revenues. The total of all City payments through 2041 under the revised loan agreement will be \$24,346,661, which includes a yearly interest rate of 4.585%.

Local Business Enterprise (LBE): Not applicable.

Background: The Sacramento Marina is located on the Sacramento River at Miller Park. The Marina is a full service, seven-day-a-week operation that includes 475 boat slips. It is the largest, most comprehensive marina in the Sacramento area with a public fuel dock, free public sewer pump-out, and administration office. In 1942, the Miller family donated a 57-acre parcel of land to the City with the requirement that it be maintained as a park and marina. The Marina's South Basin was constructed in 1958 and the North Basin in 1989. In 2011, the City completed a \$10.5 million

renovation of the South Basin that included replacement of the 45-year old deteriorating wooden docks and provided covered slips for nearly all boats.

More than 80 percent of the Marina's revenue comes from boat slip rentals, driving the financial health of the Marina. The remaining revenues are from fuel, oil, and miscellaneous sales, along with interest earnings. The Marina employs 8 full-time employees.

The Marina currently has five loans, executed between 1985 and 2009, with a combined principal balance of nearly \$17 million. Four loans are with DBAW and one is a capital lease bank note with Bank of America. The Marina is in good standing on its loans with the exception of the largest loan, the South Basin renovation loan.

In 2002, the City approved a Business Plan for the Marina that called for replacement of the 40-year old wood docks in the South Basin, through a \$6.2 million DBAW loan, to allow it to better meet market demand. The repayment plan was based on assumptions that demand for boat space rental would allow for increased slip rental rates and an assumption of 95% annual year-round occupancy. It also projected that adopting higher rates would allow for a fund surplus to allow debt payment to begin in 2013.

With project cost increases, the City eventually received a \$9,000,000 loan from DBAW (along with a \$1.5 million note with Bank of America) in 2007. Terms of the loan are as follows:

- 30-year repayment from time of project completion
- 4.5% interest (compounded continuously)
- Payments due August 1 of each year
- Deferred interest is added to principal balance
- Loan is secured by the Marina and property

To implement the repayment plan, slip rates were increased by 6% annually from 2005 to 2008, and by 12% in 2009 and 2010. Rate increases of this magnitude became unsustainable. With the recession, boat ownership and use declined, as did Marina slip occupancy rates, hitting a low of 44% in FY12/13. This decline in occupancy was consistent with other non-coastal marinas in California during the recession.

On May 14, 2013, City Council directed the City Manager to develop a Marina business plan for future operations. The Plan included a three-pronged approach: 1) lowering slip rental rates by 15 percent and authorizing the Director of Public Works to adjust rates within a range to provide the flexibility needed to respond to changes in conditions and seasons which will provide stability to the occupancy rate; 2) improving customer service by enhancing visibility and amenities as well as implementing a "back to basics" marketing program; and 3) restructuring the existing debt service

with DBAW to provide for the Marina's future financial health.

In 2014, rates were reduced by 15% to better match the local market and increase occupancy. Since then, higher occupancy levels have resulted in substantially improved revenues. In February 2018, rates were increased by 2.88%. Current occupancy levels are at 95%.