CITY OF SANTA BARBARA WATERFRONT DEPARTMENT

MEMORANDUM

Date: May 21, 2009

To: Harbor Commission

From: John N. Bridley, Waterfront Director

Subject: **Marina One Department of Boating and Waterways Loan**

RECOMMENDATION: That Harbor Commission:

A. Receive a status report on the Marina One Replacement Project – Phase 1; and

B. Recommend acceptance of the approved $5,501,000 loan and terms from the Department of Boating and Waterways (DBAW) for construction of the Marina One Replacement Project, Phases 1 – 4.

DISCUSSION:

Project Status

Marina One, “A” through “P” fingers, was built in the mid-1970s using a concrete float system. URS/Cash & Associates (URS/Cash) was hired in 2006 to conduct an evaluation of the docking system and make recommendations for replacement. URS/Cash concluded that the docks had reached the end of their useful life and recommended that “A” through “P” fingers and the main headwalk be replaced in 10 phases over the next decade. An RFP for design services was sent to reputable marina engineering firms and URS/Cash was selected to design Phase 1 (main headwalk) and Phase 2 (“O” and “P” fingers). Although the majority of the design for Phase 1 was complete at the end of FY2008, adequate funding to construct Phase 1 was not secured and the project was delayed one year.

Upon assurances from Department of Boating and Waterways (DBAW) staff that adequate funding would be allocated in FY2010 for the project, URS/Cash was directed to complete final plans and specifications. A detailed project schedule was developed (Attachment 1) identifying key milestones from final design to a completed construction project. In anticipation of DBAW action and final approval of Marina One loan financing, a Notice to Bidders went out at the beginning of May and construction bids are due on June 2, 2009. Staff expects to review construction bids and be in a position to award a contract to the lowest apparent bidder in July, the beginning of FY2010 budget year, when the funds will be available.

There are two key elements to construction of Phase 1: (1) Significant upgrades are necessary for shoreside utilities to meet current electrical standards. Construction of shoreside utility upgrades is expected to occur in the fall of 2009 and last approximately two months. (2) The main headwalk will be replaced including utility feeds to "A" through "P" fingers. Construction associated with the main headwalk is expected to occur during the winter of 2010 and last approximately two months.

Once the construction contract is awarded, staff will work with the contractor to revise the project schedule as necessary. At that time, staff will be able to develop a detailed Vessel Displacement Plan that will identify specific vessels that need to be displaced during construction and where they may be relocated in Santa Barbara Harbor to the maximum extent feasible. It is expected that several meetings of the Harbor Commission Subcommittee for the Marina One Replacement Project will be convened to go over the schedule and construction logistics with slipholders.

Funding

DBAW lends money to public and privately owned marinas through its Small Craft Harbor Development Loan Program. Loan funds are available to public entities for planning, construction, rehabilitation or expansion of small craft harbors throughout California. Breakwater construction, dredging, berthing, utilities, landscaping and irrigation, restrooms, fuel docks, boat sewage pumpout stations, and public access walkways at small craft harbors are a few of the improvements that can be funded by DBAW loans.

Santa Barbara Harbor received approximately $7,291,000 in construction loans from DBAW for harbor projects between 1961 and 1983, all of which have been repaid.

DBAW loans are funded entirely through the Harbors and Watercraft Revolving Fund (HWRF), which funds are derived from gasoline taxes paid by California boaters and the repayments of loans and interest. No State General Fund dollars are used. Interest rates for DBAW loans are currently 4.5% fixed for a 30-year term. DBAW loan funds are held in the HRWF and only drawn upon when needed (similar to a line of credit). For example, if a loan is approved for $5,500,000 and only $2,500,000 is needed for Phase 1, the Waterfront only needs to service the debt on the $2,500,000 instead of the entire loan amount. In addition, interest only payments can be made until the project is completed. This allows for a gradual increase in debt service and corresponding increase in revenues.

On March 30, 2007, the Waterfront Department submitted a comprehensive loan application to DBAW for $6 million for financing the first three phases of Marina One Replacement Project. On April 25, 2008, the Boating and Waterways Commission approved a $720,000 first installment of the loan, pending approval of the FY 2009 State Budget. DBAW staff indicated that the agency had allocated all of its loan funds to other projects and only $720,000 could be allocated to Santa Barbara for Fiscal Year 2009. The cost estimate for Phase 1 was $2,500,000 and therefore construction had to be delayed for one year pending consideration of additional funding by DBAW for the next fiscal year.

Staff has worked closely with DBAW staff over the past year to emphasize the need for the project and the fact that it is “shovel ready” to be constructed immediately. DBAW staff has made this project a priority and is recommending an additional $4,871,000 in funds for FY2010 for a total loan of $5,501,000. The recommendation will be considered by the Boating and Waterways Commission at its May 19, 2009 hearing in Sacramento. Scott Riedman, Business Manager, and Karl Treiberg, Facilities Manager, will be attending the Commission meeting. They will report on the decision of DBAW Commission on Thursday night. It is important to note that the Governor recently signed a budget covering 1½ years that included revisions to the FY2009 budget as well as the FY2010 state budget. The State Legislature frequently does not pass a budget for months after the beginning of the fiscal year (July 1) deferring the availability of funds until the budget is finally signed by the Governor. With the signing of the recent budget, it is staff’s understanding that all loan funds for this project will be available on July 1, 2009.

As part of the recent discussions with DBAW staff, the cost estimate for the project was reviewed to reflect current construction prices. Waterfront and DBAW staff in conjunction with URS/Cash revised the cost estimate (Attachment 2) and determined that Phases 1 – 4 can be funded by the pending DBAW loan of $5,501,000. This includes a 6% escalation per year but is significantly less that DBAW’s original cost estimate of $6,700,000 for Phases 1 – 3 that they prepared last year.

Although the $720,000 allocated for this project last year was not enough to begin construction, loan documents were prepared, received, and reviewed by Waterfront staff and the City Attorney. Review of the documents identified several issues related to subordination to existing debt, coverage ratios, collateral, and CPI increases involving slip fees.

The Waterfront carries significant debt in the form of Certificates of Participation (COPs). The COPs were originally issued in 1984 to payoff loans from DBAW and to fund improvements to marinas 2, 3 and 4, the sandbar breakwater extension and other harbor improvement projects. The COPs were most recently refinanced in 2002 and are considered the priority or senior debt obligation for the Waterfront and cannot be subordinated to other secured loan debt. The 2002 COPs refinance was for $19,405,000 and has been paid down almost $4 million to date. The Waterfront also has a $2.6 million balance on loans from the General Fund which will be subordinate to the DBAW loan. The loan documents prepared by DBAW did not reflect the subordinate position to the existing COPs. Staff met with DBAW officials on March 30 to discuss this issue and how the DBAW loan could be structured allowing for the subordination to the existing COPs debt in accordance with the Harbors and Navigation Code.

DBAW typically requires a debt coverage ratio (DCR) of 1.25. The DCR is calculated at gross revenues minus operating expenses excluding capital expenditures. The coverage ratio requirement provides assurances to the lender that the borrower has sufficient cash flow annually to comfortably predict loan repayment. Due to the City's need for subordination of the DBAW loan to the existing COPs, DBAW staff is recommending a DCR of 1.50. Staff prepared a detailed cash flow model for outlying years to 2018 and determined that the Waterfront can maintain a DCR of 1.50.

Debt Coverage Ratio
in thousands

	FY 2010 Proposed	FY 2011 Proposed	FY 2012 Proposed	FY 2013 Proposed	FY 2014 Proposed	FY 2015 Proposed
Total Revenue	11,580	11,827	12,109	12,436	12,767	13,104
Total Expense	9,030	9,219	9,639	9,909	10,186	10,471
Net Operating Income	2,550	2,608	2,470	2,527	2,581	2,633
Debt Service/ Sr. Obligations	1,370	1,324	1,321	1,513	1,550	1,624
Coverage Ratio / Sr. Obligations	1.86	1.97	1.87	1.67	1.67	1.62

Most DBAW loans are for private marinas and the property is the collateral for the loan. Since Marina One and all Waterfront property are held in the public trust, the property itself cannot be used as collateral. Therefore, DBAW requires Collateral Assignment of Rents and Leases as collateral for the loan. This includes all leases in the Waterfront with the requirement that the business terms of major leases will be subject to DBAW approval prior to City approval.

In addition to an increased DCR and collateral assignment of all rents and leases, DBAW also requires that slip fees be increased annually by the CPI. This is a standard loan term and DBAW was not willing to negotiate a revision. To put this in perspective, typically slip fees increase 2% annually but staff is recommending a 4% slip fee increase for FY2010 with projected increases of 4% and 3% in FY2011 and FY2012 respectively to balance the budget during the current economic downturn. The CPI for the past 10 years has averaged 2.98% or 5 years at 2.58%.

Staff has considered alternative funding sources for this project. The Infrastructure and Economic Development Bank (I-Bank) or Maritime Infrastructure Bank are state lending institutions that could fund the project. A loan from I-Bank would be the functional equivalent of another issuance of COPs. In order to make an I-Bank loan cost effective, at least $6,000,000 would have to be borrowed at one time. Debt service for the entire loan would begin immediately requiring significant increases in revenues (similar to a mortgage). As previously noted, the Waterfront will only need to service the debt on what is incrementally borrowed over the life of the project. For the proposed DBAW loan, the life of the project is Phases 1 – 4 to be completed in FY2013. Coincidentally, the existing COPs can be refinanced in FY2013 so there will be several options for funding Phases 5-10 including an addition DBAW loan or absorbing future construction costs in a refinanced COPs.

In addition to the benefits of servicing debt incrementally as opposed to all at once, there are other advantages to accepting a loan from DBAW and commencing with construction as soon as possible.

The future of DBAW is questionable and the State legislature has repeatedly threatened to absorb DBAW into the State Parks Department. A large percentage of the HRWF is already dedicated to Parks. If DBAW is absorbed by Parks many believe that the entire HRWF would go towards Park projects and would no longer be used for ports and harbors. This loan may be the last DBAW loan available to the Waterfront Department. DBAW loan terms are very good and offer excellent flexibility of payment. Similar terms and flexibility are not offered lending institutions such as I-Bank.

Recent bids indicate that construction costs have been the lowest they have been in several years. Recent Waterfront capital improvements such as the Breakwater Cap and City Pier Heavy Timber projects came in considerably under the cost estimates. The existing utility system feeding “A” through “P” fingers is deteriorating rapidly. The utility system is unreliable and costly to repair. Due to the current bidding climate and deteriorating marina, beginning construction as soon as possible may save the Department money and avoid costly repairs.

Finally, the debt service for the pending DBAW loan has been anticipated in the Waterfront’s 6-year cash flow model providing confidence that this expense can be absorbed in the budget without significant increases in fees or revenues.

For these reasons, staff believes the DBAW loan is the most cost effective and efficient way to fund the Marina One Replacement project and recommends acceptance of the loan and terms from DBAW for $5,501,000.

Attachments: 1. Project Schedule Grant Chart
2. Revised Cost Estimate for Phases 1 - 4

Prepared by: Karl Treiberg, Waterfront Facilities Manager
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