The Des Moines Marina Enterprise

City Council Presentation

March 10, 2022

DAN BREWER, COO

SCOTT WILKINS, HARBORMASTER

KATY BEVEGNI, ASSISTANT HARBORMASTER

Purpose:

- Clarify the status of the Marina Enterprise.
- Explain management strategy and requirements of the Marina.
- Address a number of misconceptions about the Marina and the use of Marina funds.
- Present Facts and Data.

Misconceptions about the Marina

- The City took money from the Marina at the expense of replacing docks. Now, replacement is more expensive and those that pay for moorage and fuel will be stuck with costs.
- If the City had not “robbed” the Marina, the Marina would have had enough resources to cover the cost of the bulkhead replacement.
- The City has taken money from the Marina for years.
- The services the City provided the Marina were inflated in order to take money from the Marina fund to support the City.
- Leasehold excise tax payments from the Marina should be credited against the Marina’s Indirect Cost Allocation.
- Des Moines residents should get a discounted moorage rate.

The Des Moines Marina Enterprise

- The City operates the Marina as an Enterprise
  - Managed like a business
- The City accounts for Marina financial transactions in a separate and transparent fund
  - The Marina (Enterprise) Fund
- The City has 10 full time employees dedicated specifically to the Marina Enterprise
  - Harbor Master, Assistant Harbor Master, Office Staff, and Operations and Maintenance Staff
    - These are Direct Operating Expenses of the Marina
- The Marina relies upon other City staff to provide various “administrative functions” **of the Marina**
  - Finance, Legal, Human Resources, Information Technology, City Administration
    - These are Indirect Operating Expenses of the Marina: “Indirect Cost Allocation”

Indirect Cost Allocation
What is it?

The City's Support Service Departments:

- Finance
- Human Resources
- Information Technology
- Legal
- City Administration:
  - City Managers Office and City Clerk's Office
- City Council

- The Support Service Functions of these "Administrative" Departments are paid for by the City's Operating Departments.

- Greater efficiency with shared resources.

The City's Operating Departments:

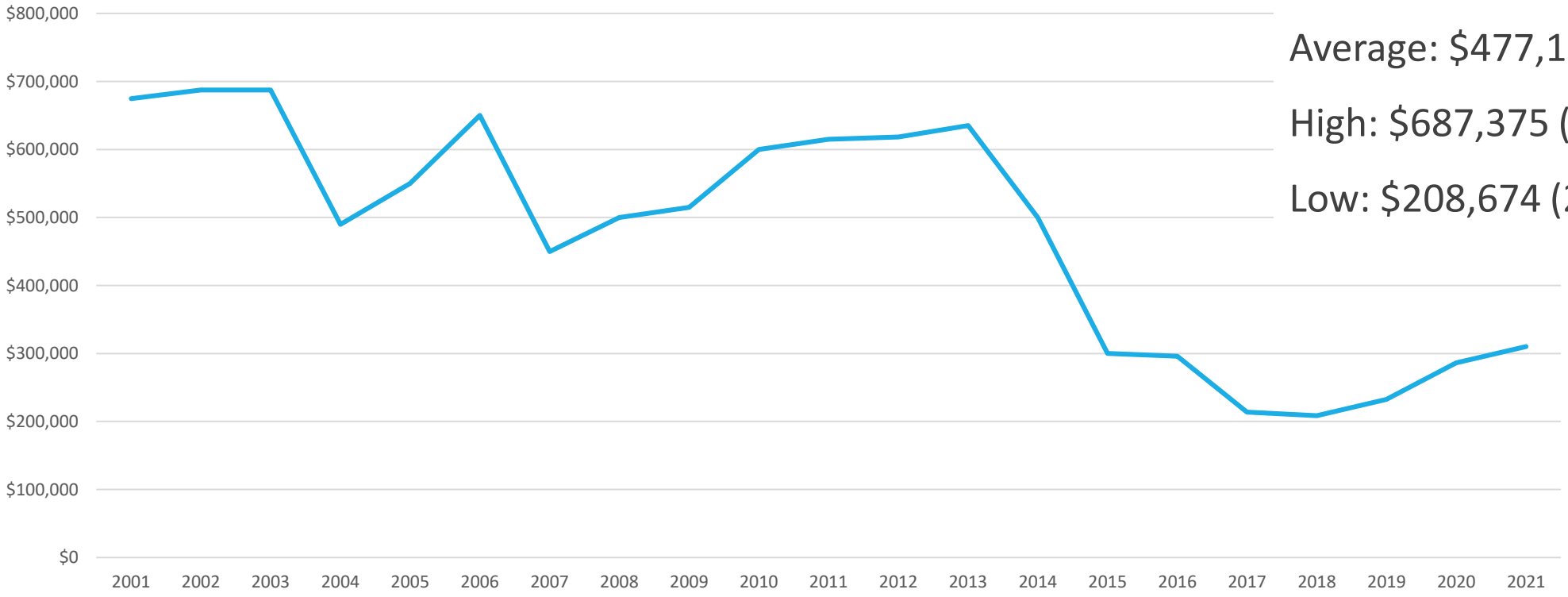
- Police
- Court
- Community Development
- Parks, Recreation and Senior Services
- Public Works
- Capital Improvement Program
- Surface Water Management
- Marina

Indirect Cost Allocation
Calculation

- Support Service Functions of the City's Support Service Departments are proportionally allocated to the City's Operating Departments based on a number of factors, including but not limited to:
  - Size of the Operating Department
  - Budget and actuals
  - Number of Employees
  - Assets (Computers, Vehicles, Buildings, Docks, Etc.)
  - Risk (Insurance)
  - Number of Transactions and Contracts

The Marina's Indirect Cost Allocation

History

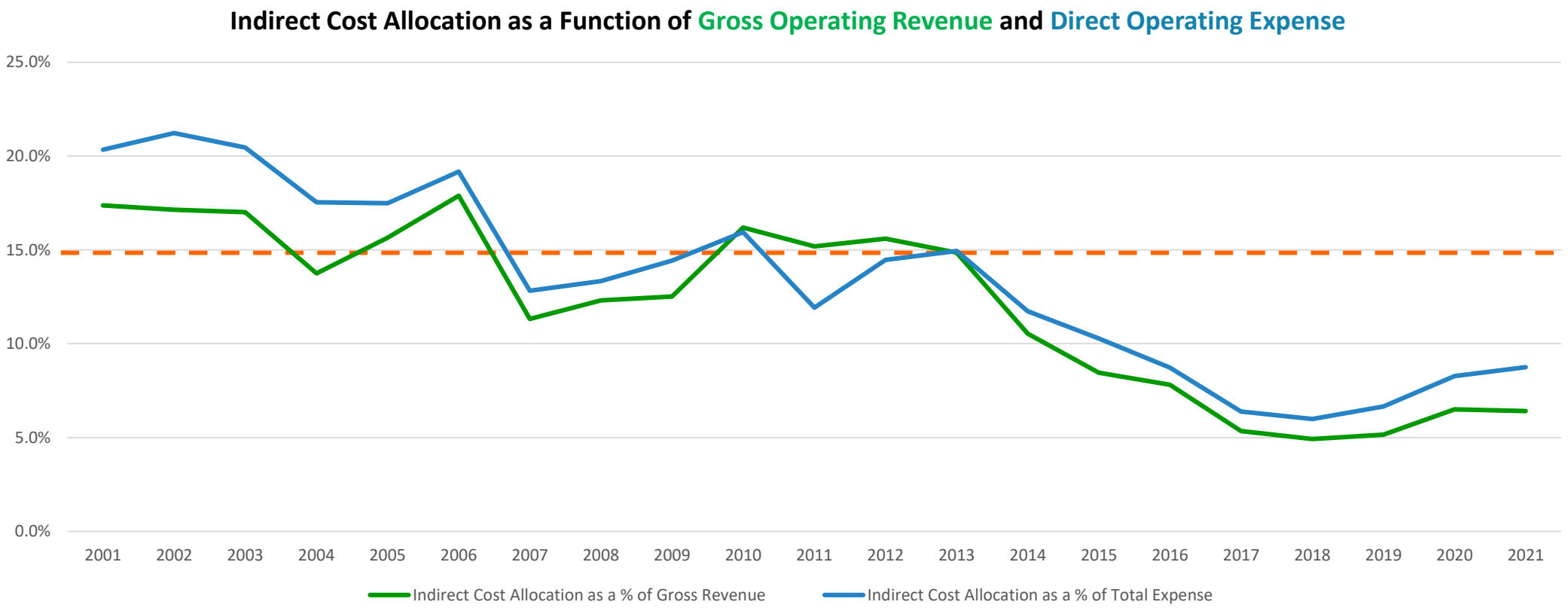


Average: $477,175

High: $687,375 (2003)

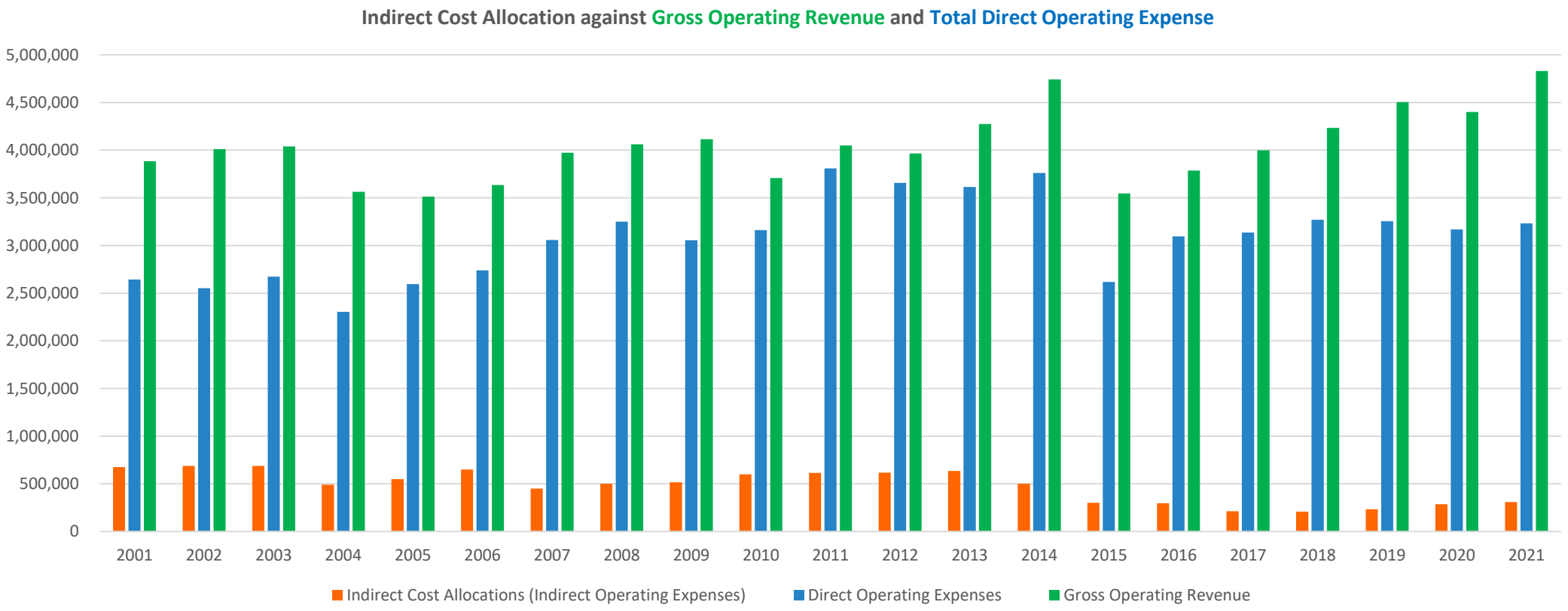
Low: $208,674 (2018)

The Marina's Indirect Cost Allocation
History



(Excludes Capital Improvements and Debt Service)

The Marina's Indirect Cost Allocation History



(Excludes Capital Improvements and Debt Service)

The Marina's Indirect Cost Allocation
Shouldn't there be a credit for Leasehold Tax Excise payments?

What is Leasehold Excise Tax?

- It is a tax paid by persons or businesses who use or lease publicly-owned property.
- Real estate and property owned by a government entity is not subject to property tax.
- When private parties use government property, they are provided the same government services as all other taxpayers.
  - For example: Public Safety
- The leasehold excise tax compensates governments for these services.
- The State's leasehold excise tax rate is 12.84%.
- Marina tenants pay leasehold excise tax for the use of Marina facilities

The Marina's Indirect Cost Allocation

Shouldn't there be a credit for Leasehold Tax Excise payments?

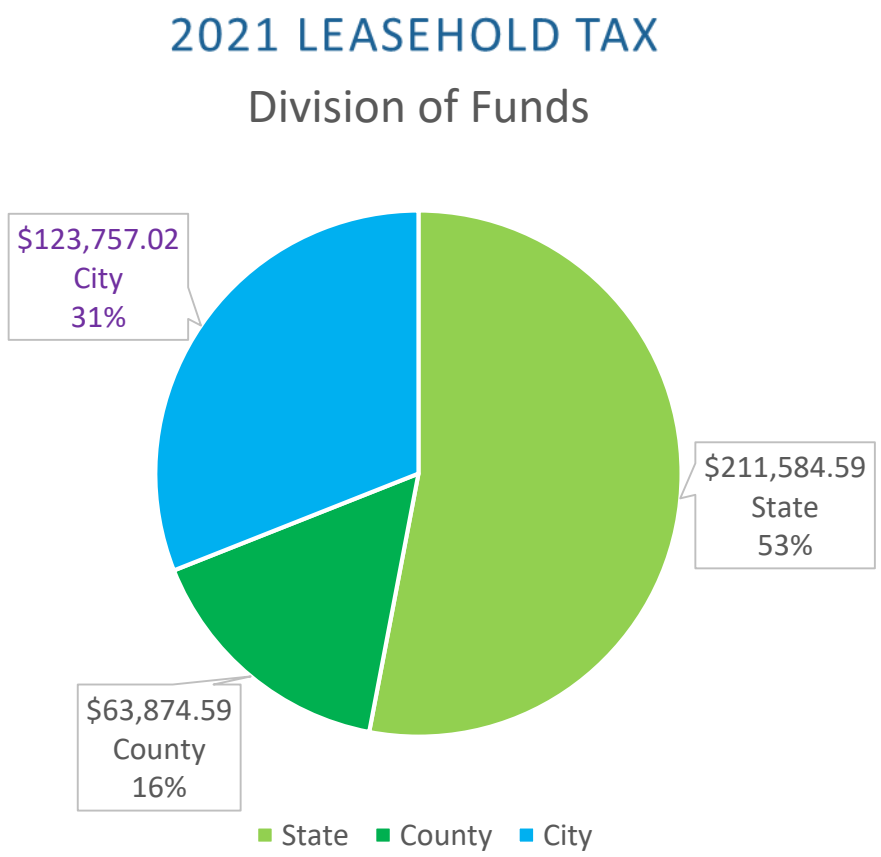
What was the 2021 Marina Leasehold Excise Tax?

- $399,034.20

How is Leasehold Excise Tax Distributed?

- Leasehold Excise Tax is paid to the State
- The State allocates leasehold excise tax as follows:
  - ~ 53% goes to the State's general fund
  - ~ 16% goes to King County
  - ~ 31% comes back to the City

- In 2021 the City received $123,757.02 in Leasehold Excise Tax from the use of the Marina.



The Marina's Indirect Cost Allocation
Shouldn't there be a credit for Leasehold Tax Excise payments?

Back to the question

- Shouldn't there be a credit for Leasehold Tax Excise payments against the Marina's Indirect Cost Allocation?
  - The 2021 Indirect Cost Allocation was: $310,000
  - The 2021 leasehold tax revenue was: $123,757.02
  - Shouldn't the Indirect Cost Allocation be reduced by $123,757.02?

The Marina's Indirect Cost Allocation
Shouldn't there be a credit for Leasehold Tax Excise payments?

Back to the question

- Shouldn't there be a credit for Leasehold Tax Excise payments?
  - The 2021 Indirect Cost Allocation was: $310,000
  - The 2021 leasehold tax revenue was $123,757.02
  - Shouldn't the Indirect Cost Allocation be reduced by $123,757.02?

- **Answer: No**

- Reminder: When private parties use government property, they are provided with the same government services as all other taxpayers.

- The Leasehold tax revenue that the City receives from the State is used for general fund activities that support the Marina, for example:
  - Public Safety (~50% of the City's General Fund budget)
  - Marina tenants benefit from the City's Public Safety Services
  - Public safety is an "Operating Department": These costs are not included in the indirect cost allocation.

The Marina's Overall Financial Condition
Annual Budgets

Marina Operations

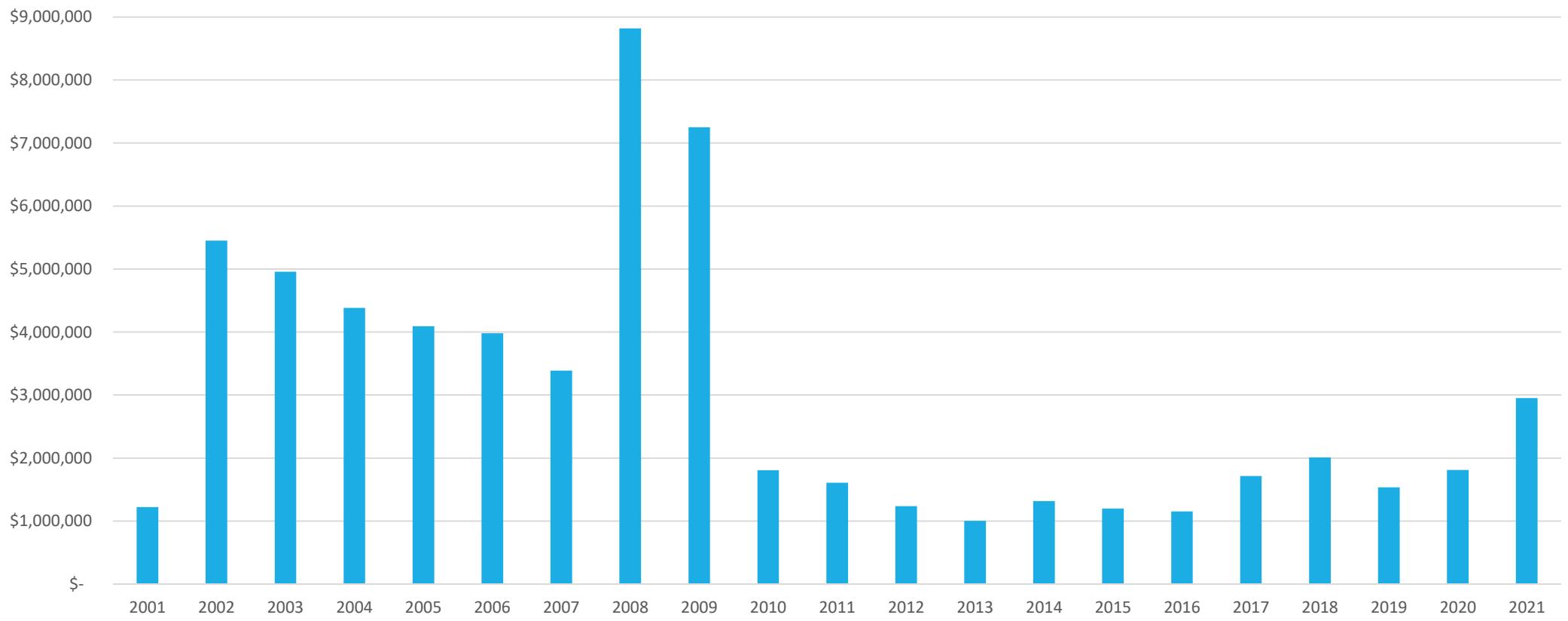
- Expenditures (Direct and Indirect)
- Revenues

Marina Capital Improvements and Debt Service

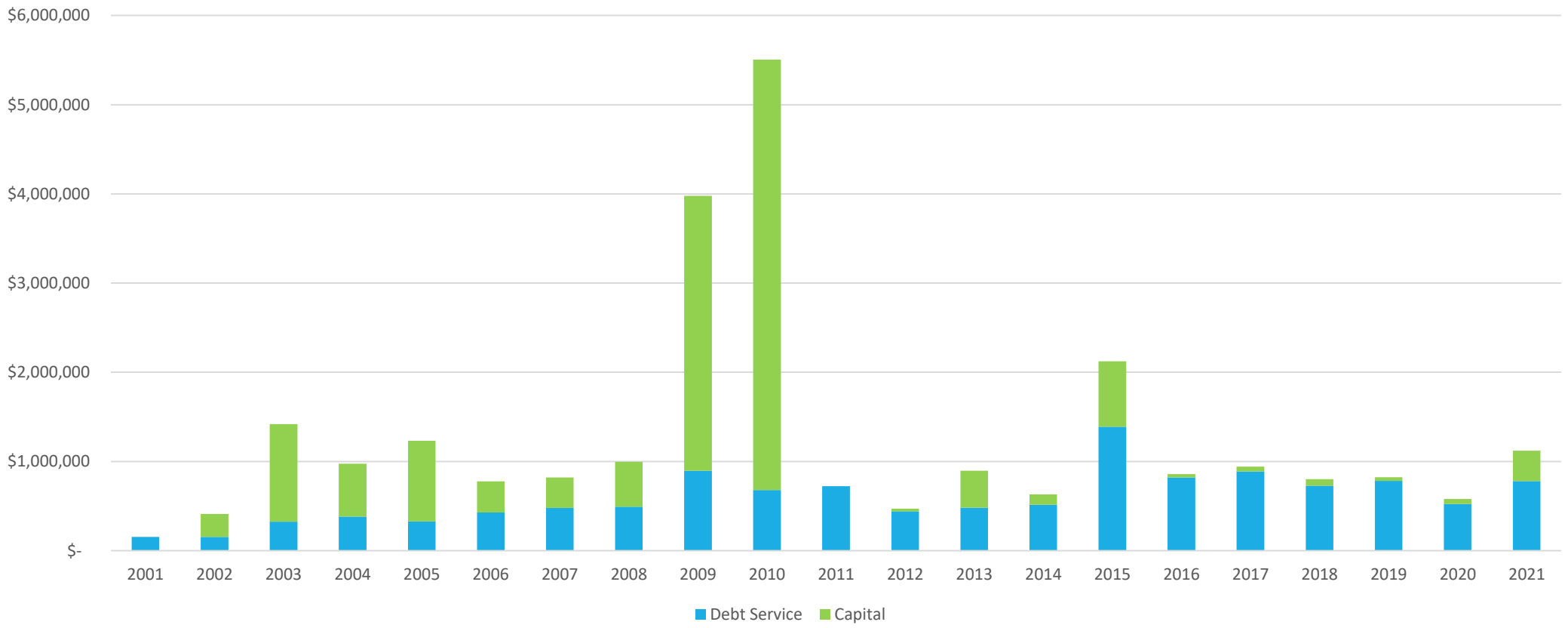
- Use of Net Operating Revenues
- Interest Income
- Bond Proceeds
- Grants

History of Marina Fund Balance

Marina Funds (Restricted and Unrestricted)

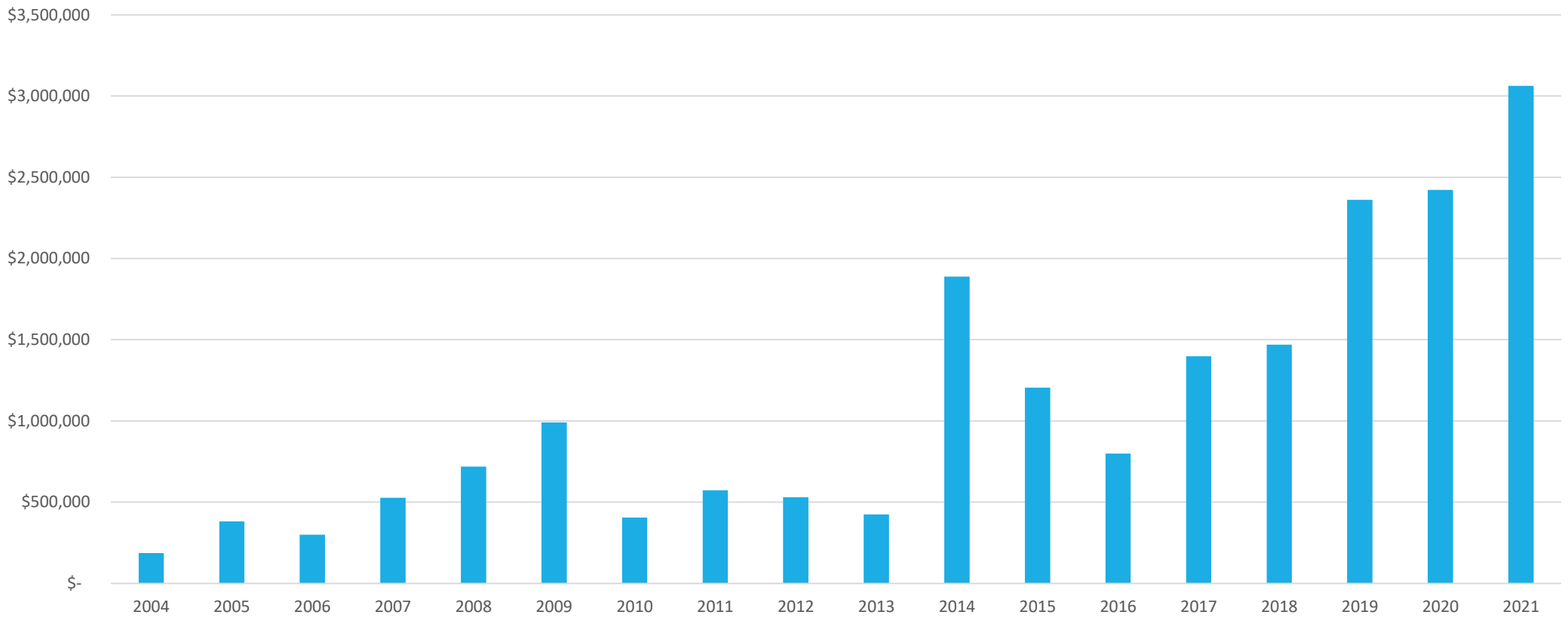


History of Marina Fund Balance
Use of Marina Funds



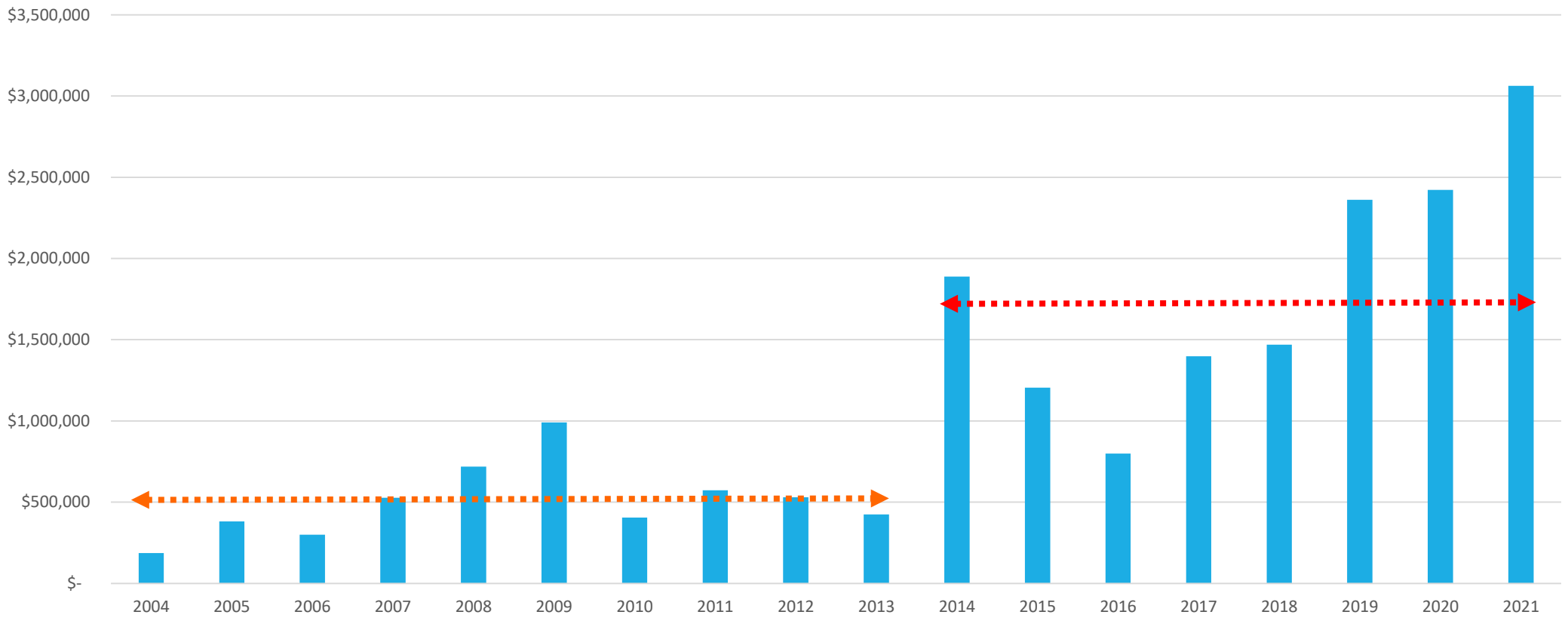
History of Marina Fund Balance

Unrestricted Fund Balance



History of Marina Fund Balance

Unrestricted Fund Balance



2004-2013 Average = $503,755

2014-2021 Average = $1,825,688

The Marina Enterprise
Audit History

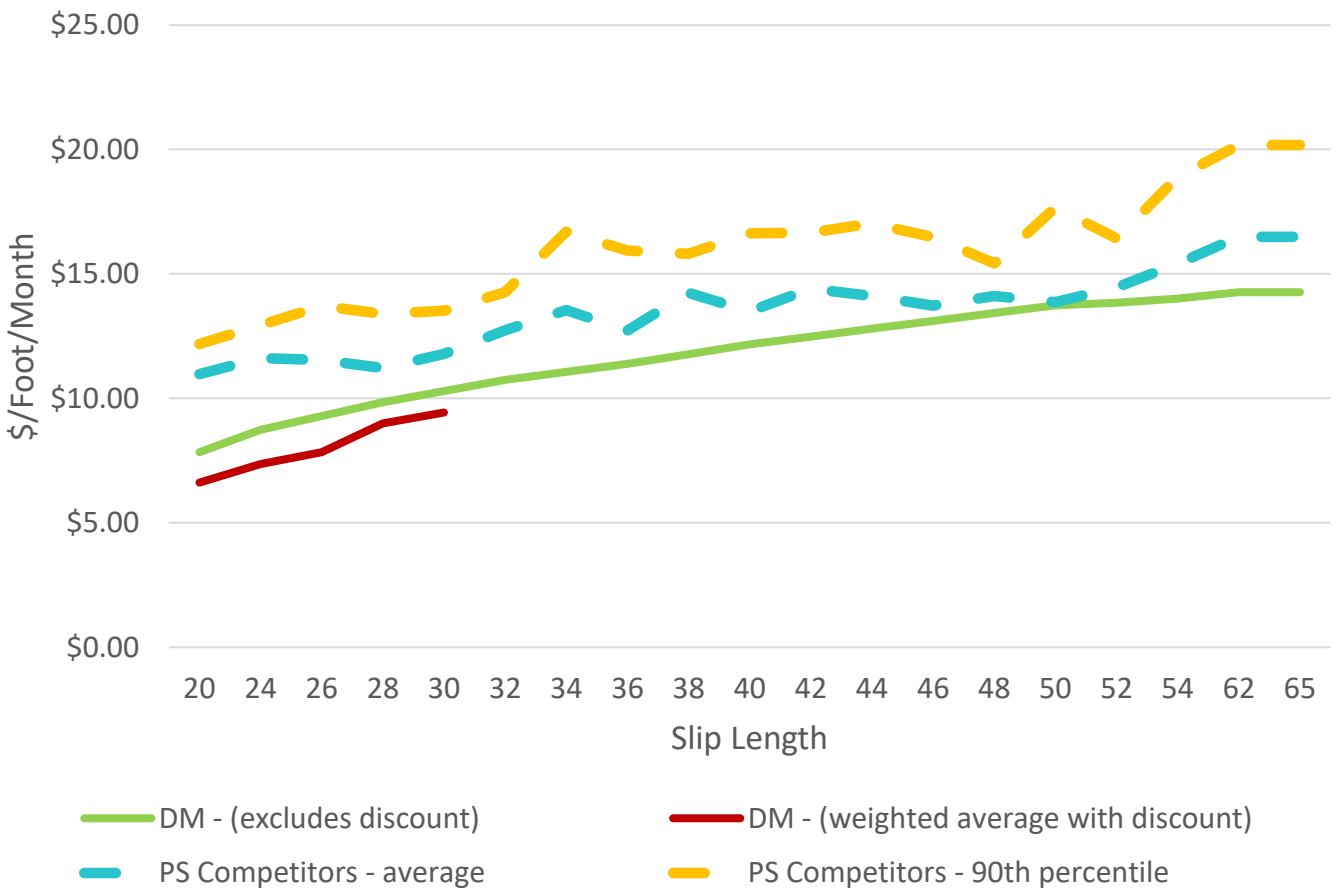
- The Marina Enterprise is audited by the State of Washington Auditor every year.
- There has never been an audit finding that the Indirect Cost Allocations have been inappropriate.
- There has never been an audit finding that the City inappropriately allocated funds from the Marina.
- The facts: it never happened.

Des Moines Marina Moorage Rates
More to the Financial Story

- There are always two components in evaluating financial health:
  - Expenditures
  - Revenues
- In almost all cases revenues are predicated upon macroeconomic trends.
- Generally expenditures tend to be stable through economic fluctuations.
  - Subject to inflation, cost of living increases, and other economic factors

The Marina's Moorage Rates

More to the Financial Story



- City Council Presentation 2/10/22
- Moorage Rate Comparison (BST)
- Des Moines Marina moorage rates for open and covered slips are approx. 12% less than the average rates of Puget Sound competitors.
- Monthly rates for open moorage are approx. 26% less than the 90th percentile rates of Puget Sound competitors (23% less for covered moorage).

The Marina's Moorage Rates (open)
More to the Financial Story

Table 8 – Puget Sound Monthly Marina Rate Assessment – Open Slips

	Des Moines	Puget Sound Competitors		Comparison (DM +/-):	
Location	Monthly Rates	Average	Upper 90%	Average	Upper 90%
20	$7.83	$9.84	$12.15	-20%	-36%
24	$8.73	$10.25	$12.94	-15%	-32%
26	$9.29	$11.78	$14.13	-21%	-34%
28	$9.84	$10.43	$13.40	-6%	-27%
30	$10.29	$11.48	$13.88	-10%	-26%
32	$10.74	$12.30	$14.26	-13%	-25%
34	$11.06	$13.54	$16.69	-18%	-34%
36	$11.39	$12.81	$16.29	-11%	-30%
38	$11.77	$14.56	$16.15	-19%	-27%
40	$12.16	$13.15	$16.66	-8%	-27%
42	$12.48	$14.31	$16.47	-13%	-24%
44	$12.80	$14.26	$17.37	-10%	-26%
46	$13.11	$13.72	$16.48	-4%	-20%
48	$13.43	$14.51	$15.65	-7%	-14%
50	$13.74	$13.39	$17.37	3%	-21%
52	$13.85	$14.87	$16.67	-7%	-17%
54	$14.00	$16.23	$18.79	-14%	-25%
62	$14.26	$16.87	$20.12	-15%	-29%
65	$14.26	$16.69	$19.53	-15%	-27%

Note: rates were inferred based on neighboring rates if they were not available for a particular slip length
Source: BST Associates, marinas; 2021 rates

- Moorage Rate Comparison (BST)
  - By slip size
  - Average
  - 90th percentile
- BST assumed an average of <u>12% below market average</u> across all sizes.

The Marina's Moorage Rates (covered)
More to the Financial Story

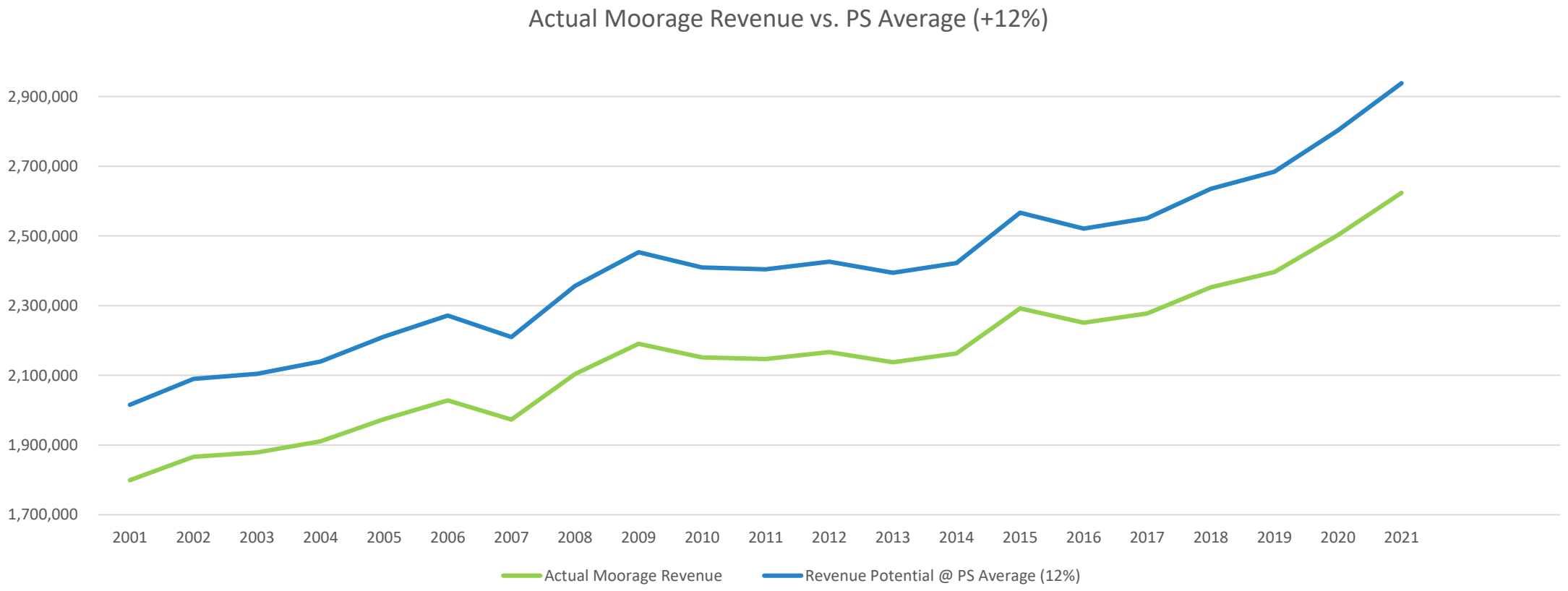
Table 9 – Puget Sound Monthly Marina Rate Assessment – Covered Slips

	Des Moines	Puget Sound Competitors		DM comparison with:	
Location	Monthly Rates	Average	Upper 90%	Average	Upper 90%
20	$9.74	$10.63	$12.90	-8%	-25%
24	$11.16	$12.68	$14.48	-12%	-23%
26	$11.87	$13.16	$15.09	-10%	-21%
28	$12.57	$14.74	$16.06	-15%	-22%
30	$13.65	$13.86	$15.34	-1%	-11%
32	$13.90	$15.77	$18.61	-12%	-25%
34	$14.87	$17.26	$18.62	-14%	-20%
36	$15.84	$17.50	$19.91	-9%	-20%
38	$16.01	$20.01	$22.32	-20%	-28%
40	$16.17	$17.80	$23.17	-9%	-30%
42	$16.82	$19.89	$24.34	-15%	-31%
44	$17.47	$21.99	$25.51	-21%	-32%
46	$18.13	$21.70	$25.18	-16%	-28%
48	$18.78	$21.42	$24.84	-12%	-24%
50	$19.43	$19.29	$23.82	1%	-18%
52	$20.08	$21.35	$24.97	-6%	-20%
54	$20.74	$23.41	$26.13	-11%	-21%
62	$23.34	$29.58	$29.58	-21%	-21%
65	$24.32	$31.64	$30.74	-23%	-21%

Note: rates were inferred based on neighboring rates if they were not available for a particular slip length
Source: BST Associates, marinas; 2021 rates

- Moorage Rate Comparison (BST)
  - By slip size
  - Average
  - 90th percentile
- BST assumed an average of <u>12% below market average</u> across all sizes. The differential varies significantly by slip length, ranging from +1% to – 23%.

Actual Marina Revenue VS. Lost Potential



Des Moines Marina Moorage Rates

More to the Financial Story

- Moorage rates in 2021 were 12% below the market average (BST).
- The 2021 moorage rates are closer to the market average than any time in the last 20 years.
- Total moorage revenue (2001-2021): $45,187,410.
- The potential revenue at Average Market Rates (2001-2021): $50,609,900.
- Lost revenue = $5,422,489.
- The City has subsidized Marina moorage rates for decades.

Des Moines Marina Moorage Rates
Addressing the Issue

- Current City Policy is to set Marina moorage at average market rates.
  - Gradually increasing moorage rates to close the gap
- As new docks come on line, moorage rates will be set at or above the 90th percentile.
- While at the same time targeting an overall occupancy rate in the mid 90th percentile.

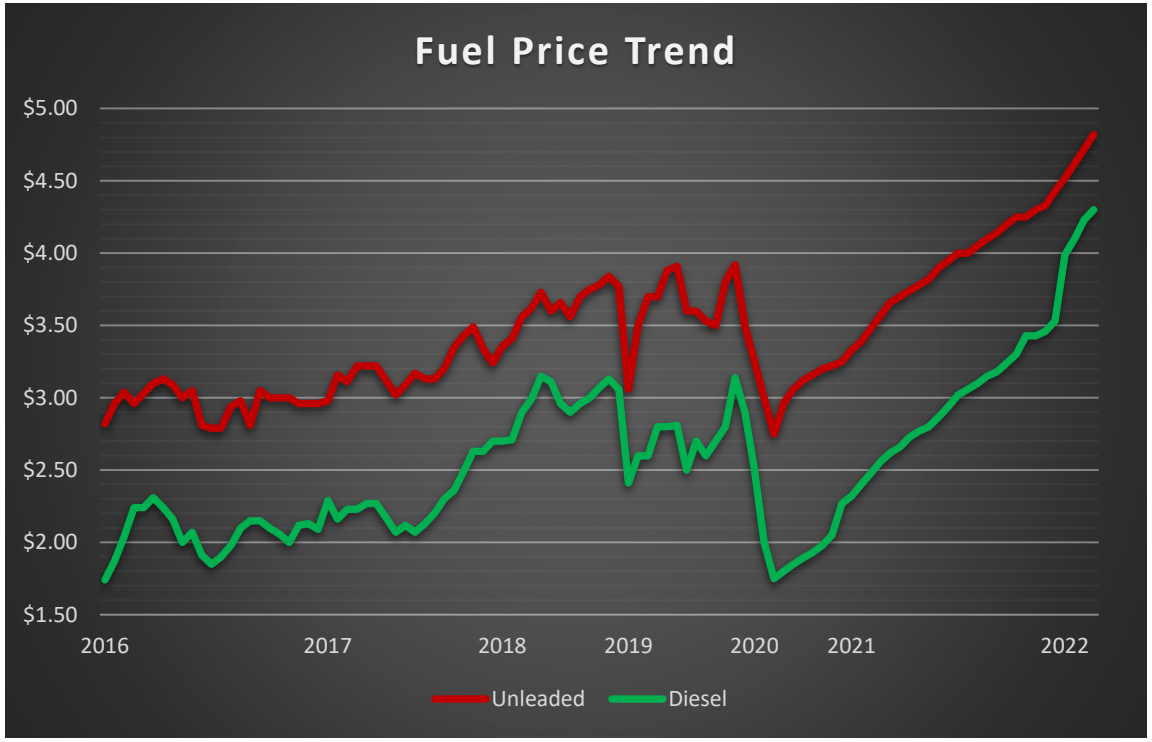
The Marina's Fuel Sales

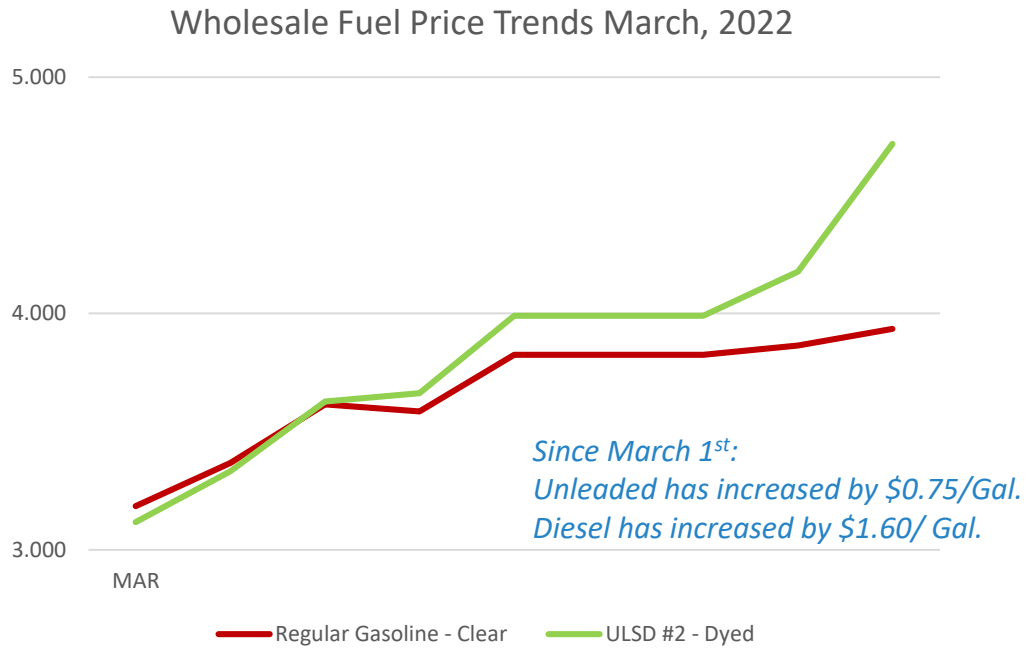
This is what the Des Moines Marina is known for on the Puget Sound

- Prior City policy was to sell fuel below the market to attract boaters to the City.
  - Was thought of as a Economic Development tool for the Marina District
- On average our fuel prices have remained below the market.
  - Quote: "Des Moines has the lowest fuel prices on lower Puget Sound."
- Over the last 20 years, the Marina sold millions of gallons of fuel.
- In 2020 & 2021 combined we sold just under 1,000,000 gallons of fuel.
- What is the magnitude of the revenue loss?
  - Example: $.25/1,000,000 gal = $250,000
  - Lost Revenue (2001-2021) = ~$2.5 Million
- The City has subsidized Marina fuel sales for decades.
  - At the same time realizing increased O&M Costs

The Marina's Fuel Sales
Addressing the Issue

- Current City policy is to sell fuel at market rates
  - Gradually increasing fuel prices to close the gap

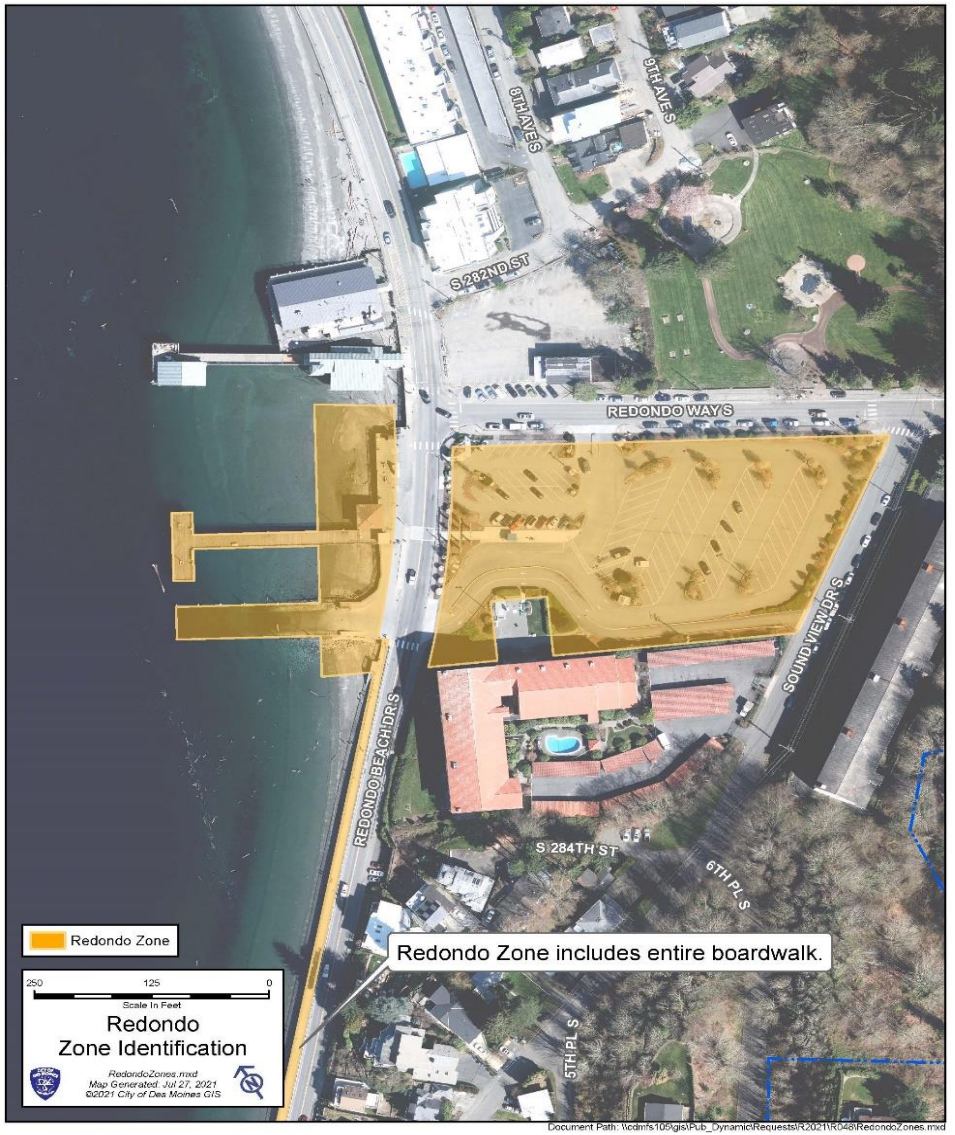




March 8, 2022 Fuel Prices	Des Moines	Foss Harbor	Tacoma Fuel Dock	Elliott Bay	Narrows Marina	AVERAGE
Unleaded	$4.819	$4.73	$4.35	$5.05	$5.91	$5.05
Diesel	$4.299	$4.38	$4.75	$5.00	$5.39	$4.68

Marina vs. Waterfront Zone(s)

Assets and Liabilities



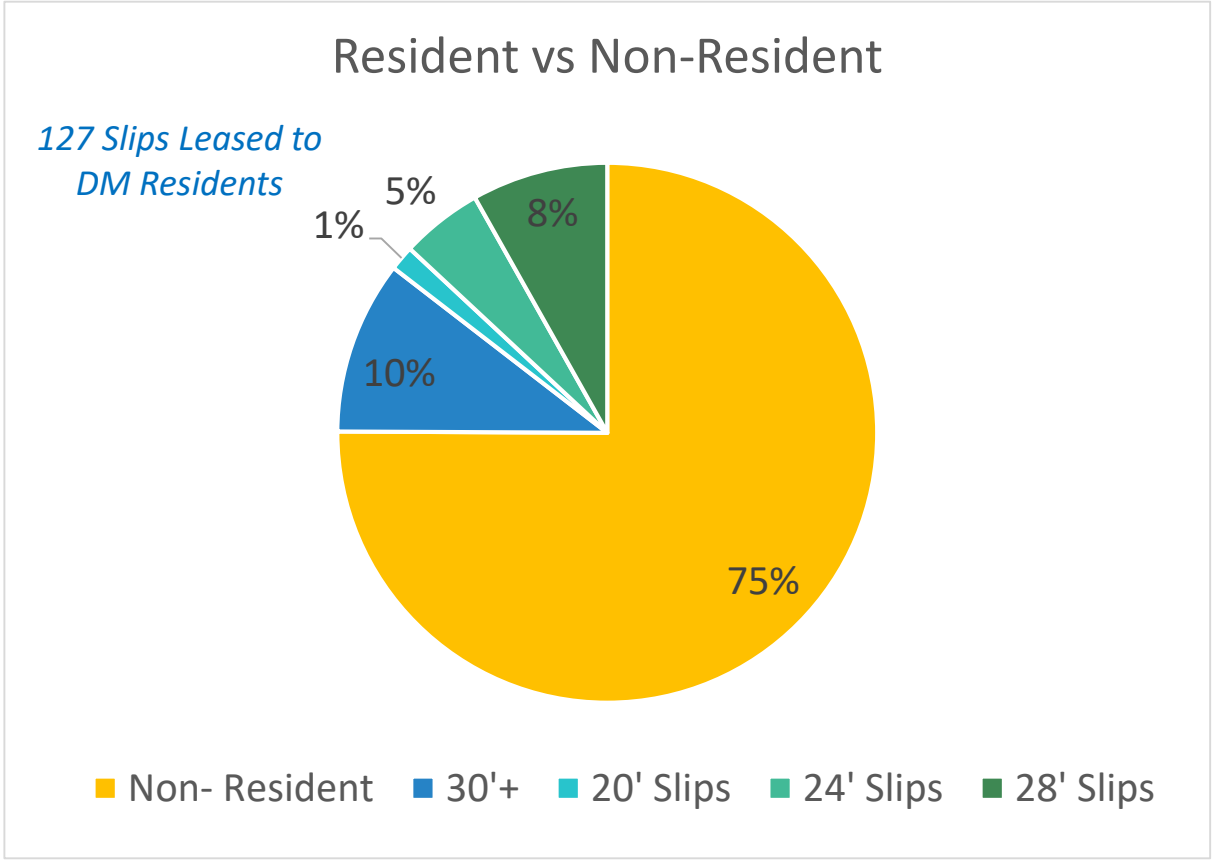
Marina Assets and Liabilities
Functions of the Marina

- Waterfront Zone & Redondo Zone are no longer the financial responsibility of the Marina.
  - North Bulkhead Project ($12 million): A City Project
  - Parking System: Not 1 cent was paid by the Marina

- What about Marina Staff working in the Waterfront and Redondo Zones?
  - Marina staff charge their time spent in those zones
  - This represents a direct cost allocation to the Waterfront and Redondo Zones (City)

Marina Moorage Rates
Discount for Des Moines Residents?

- Approximately 20-25% of Marina tenants live in Des Moines.
- No property tax from the City supports Marina Operations.
- Providing a discount for Des Moines residents would mean that either:
  - Non-resident boaters would have to pay more (*potentially illegal*), or
  - The City would have to subsidize the amount of the discount from the general fund.



Conclusion

- We hope this presentation addresses any misconceptions about the Marina Enterprise and answers the questions that have been raised.
- The City will continue to carefully monitor and account for all Marina expenditures as we have always done.
- The City will continue to strive to be more competitive within the Marine markets.
- The City is moving forward with Capital infrastructure investments for the future sustainability of the Des Moines Marina Enterprise.