

Marina Fund Update

Council Budget and Finance Policy Committee

November 12, 2020

Summary

The Marina Fund is projected to exhaust all reserves within the next budget cycle. The Fund has struggled with a structural deficit for many years, but as recently as February 2020, was on track to remain solvent through FY25 and beyond. Since COVID, lease revenues from the hotel, restaurants and commercial tenants have plummeted and safety related issues that were already significant, have become more prevalent, forcing many berthers and their associated revenue to leave. The Fund is now projected to need \$2.3 million to maintain Waterfront operations in the next budget cycle.

While there is a significant funding gap in the next budget cycle, we project that this will be a one-time need. The City's investments in crime prevention, capital infrastructure, and long-term planning at the Waterfront can stabilize the Marina Fund, so that as the economy recovers from COVID, the Marina Fund will be on pace to be self-sustaining.

Prior to COVID

Berth revenue has historically been the backbone of the Marina Fund. It makes up close to 60% of all Marina Fund revenue and has been a stable revenue source even through economic downturns. This stability has been undermined in recent years by an exodus of boaters, with more than 11% of our boating population leaving the Berkeley Marina. This is the result of worsening safety issues and decades of underinvestment in infrastructure. It has led to a large structural deficit, dwindling reserves and significant unfunded needs.

Over the past two years, the Council has made significant investments in the Waterfront to start to turn this around. This investment includes the Berkeley Marina Area Specific Plan (BMAASP), a Memorandum of Understanding (MOU) with the Water Emergency Transit Authority (WETA) for long-term ferry service, T1-funded Marina street renovation, significant South Cove improvements and \$3.45M for emergency infrastructure repairs to docks, restrooms, and pilings. These investments have been the basis of the strategy to set the Marina Fund on a path to long-term success.

Prior to COVID, these improvements were making a difference. Occupancy rates were holding steady, curbing the trend of boater departures in recent years. These improvements were laying the groundwork for fee increases and increased lease revenue, and an overall improved financial picture for the Waterfront. In February 2020, staff were projecting that the Marina Fund would remain solvent through FY25 and beyond.

Where we have not made progress, is providing a safe environment for Waterfront users. Whether we are referring to the restaurant or hotel users, recreational day users, live aboards or berthers the safety issues persist. Starting four years ago, Marina berth revenue began to decline, as berthers left the Marina citing concerns about safety and security, many of these related to unauthorized campers and RVs, and later following an uptick in gun violence at the Marina. Marina occupancy rates declined during this period from 85% in 2016 to 79% in 2018. This has been a difficult trend to reverse. Even until February 2020, before COVID, occupancy levels remained at 78%. Together, these declines in occupancy and foregone fee increases have cost the Marina Fund over \$1.2M.

Impacts of COVID

COVID-19 has had three significant effects on the Marina.

1. Marina Fund revenue has plummeted, especially lease revenue from the Doubletree Hotel, restaurants and other commercial tenants.
2. Council's \$3.45M allocation of General Fund for emergency infrastructure at the Marina was reduced by \$1.45M due to the post-COVID budget shortfall.
3. Slipholders are leaving due to safety and security concerns.

Lease revenue: In a typical year, the City would expect to receive \$2.2M in lease revenue from the hotel, restaurants and commercial tenants. This fell to \$1.8M in FY20, with fourth quarter revenues collapsing following the Shelter in Place order. It is projected to fall to \$1.2M in FY21, buoyed primarily by the higher base rent negotiated in the new Doubletree lease. We are currently projecting recovery to begin in the fall of FY22, though this may change depending on the course of the pandemic and the depth of the economic fallout. In total, we project lease revenue losses due to COVID of \$1.6M.

Capital reduction: Last spring, the General Fund allocation for immediate Waterfront needs was reduced by \$1.45M to help close the budget deficit following COVID. The electrical replacement at O&K dock was partially funded with \$550k, and the remaining \$650k to complete the project was allocated from the Marina Fund remaining reserve balance. This has had the dual impact of depleting the Fund reserves and accelerating its slide into the red. And piling replacement work – still an urgent need – remains unfunded.

Crime and safety: Revenue from the Marina's 800 rented boat slips accounts for 2/3 of all Marina Fund revenue. While crime and safety has been a persistent concern at the Waterfront, there has been a crime surge since July, with 114 incidents in July and August. We processed multiple slip cancellations in August and September due specifically to crime and safety concerns. We estimate that these impacts will result in a revenue decline in FY21 and FY22 of close to \$350k/year.

The result is that the Marina Fund is projected to exhaust all reserves early next year, and be more than \$2.3M in the red by the end of FY23.

Strategy for Recovery

The strategy for recovery is to make the Marina as safe as possible, and to improve the infrastructure. These are the primary drivers of (or drains on) our revenue, from both slipholders and tenants.

On safety and security, we are moving to install cameras in berther parking lots, and are seeking Council approval for an AAO request for \$60k in FY20 General Fund carryover. This will match the \$60k we have spent in Marina Fund to buy cameras for the first 3 berther lots, and will extend the cameras to all berther lots. There is a second AAO request for Council approval for \$180k of Marina Fund to fund more private security at night and additional Waterfront monitors during the day. The Police Traffic Bureau substation move to 125-127 University in the spring is expected to further deter crime.

On infrastructure, we are focused on continued dock-facing capital and maintenance work underway: O&K dock electrical; finger dock replacement; and dock, gangway, and gate repairs. The T1-funded Marina streets project, though delayed due to T1 General Fund reductions, is moving forward into construction next spring – that project is critical to attracting and retaining berthers.

Additional support will be needed to offset the significant revenue loss due to COVID. The Fund will need an estimated \$2.3 million in the next budget cycle to maintain Waterfront operations.

This need is not expected to be recurring. Our investment in safety, capital, and long-term planning. We'll continue to seek external funding (e.g. T1 and grants) for capital. We'll complete the BMASP and ferry study, along with significant capital projects like D&E dock replacement and Marina streets reconstruction, which will pave the way for increased occupancy and economic recovery. With these efforts, the Marina Fund can be viable.