ECONOMIC ANALYSIS
FOR
MORRO BAY STATE PARK
CAFÉ AND MARINA OPERATION

Prepared for:

Department of Parks and Recreation
State of California

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INTRODUCTION

The California Department of Parks and Recreation (DPR) is considering soliciting concessionaire proposals for the Morro Bay Café and the Morro Bay Marina, both located along the waterfront in the Morro Bay State Park. The marina has been operated through an Operating Agreement with the City of Morro Bay since 2002, under which the City receives a rent of 20% of the marina revenues in exchange for operating and maintaining the facilities.

Both facilities are in need of some refurbishing and the marina is in need of some additional dredging. Thus DPR retained Pacific Group to assist in evaluating the amount of funding that the concessionaire(s) of these two facilities could contribute to the needed improvements.

At this time there is not a recent and complete cost estimate for the required dredging and other improvements at the marina. There is also no identified public source of grants or subsidies for these costs. In light of this, the purpose of this study is to determine the maximum amount the concessionaire could contribute to these future costs and still maintain a viable operation.

As part of the planning for this project, and prior to soliciting interest from concessionaires, DPR retained Pacific Group to assist in the preparation of an Economic Analysis for the proposed project. Specifically, Pacific Group undertook the following tasks:

1. Meet with local DPR staff and a City representative to evaluate the site and obtain relevant background information.
2. Inspect the premises.
3. Review the characteristics of comparable projects.
4. Assist in defining alternative financing approaches the site.
5. Review costs estimates for marina improvements (if any) provided by the City.
6. Prepare a proforma financial analysis for the café and marina.
7. Recommend lease/fee terms that will maximize the contribution from the concessionaire.
8. Estimate and compare the projected ROI to the concessionaire and Rent to the State for the two uses under different financing approaches.

The analysis does not include any structural analysis of buildings or slips, site plans, environmental assessments or regulatory assessment. To the extent that these types of analysis have been done in the past, they were considered and referenced as appropriate.

Pacific Group wishes to thank the staff of DPR for their cooperation and assistance during this study, including Teresa Montijo, Nick Franco and Brooke Gutierrez, and Eric Endersby, Director of the Morro Bay Harbor Department, who all provided data, background information and ongoing management and policy guidance for this analysis.

LIMITING CONDITIONS

The information in this report was compiled from a variety of sources including DPR staff, other government agencies, review of public documents, and third parties deemed to be reliable. Although Pacific Group believes all of the information in this report is correct, it does not warrant the accuracy of such information.

The accompanying projections and analyses are based on estimates and assumptions developed in connection with the study using currently available economic data and other relevant information. It is the nature of forecasting however, that some assumptions may not materialize, and unanticipated events and circumstances may occur. Therefore no warranty is made by Pacific Group that the projections in this report will actually be achieved.

This study is intended for the internal use of the California Department of Parks and Recreation (DPR) in their consideration of the economic potential of alternative approaches to financing improvements to the project. This report is not to be used in conjunction with any public or private offering of securities or for any purpose other than that for which it was prepared.

No abstracting, excerpting or summarization of this study may be made without first obtaining the prior written consent of Pacific Group.

No investor should rely solely on this report and anyone considering investing in this project should undertake their own investigation and due diligence study of the site, the potential development costs, and other potential project risks.

1. EXECUTIVE SUMMARY

The California Department of Parks and Recreation (DPR) is considering soliciting concessionaire proposals for the Morro Bay State Park Café and Marina, both located along the waterfront in the Morro Bay State Park. Both facilities are in need of some refurbishing and the marina is in need of some additional dredging. Thus DPR retained Pacific Group to assist in evaluating the amount of funding that the concessionaire(s) of these two facilities could contribute to the cost of the needed improvements.

THE SITE AND CURRENT FACILITIES

The Morro Bay State Park Marina and Café are located at the southernmost part of the Morro Bay Harbor. The marina offers direct access to the National Estuary which is rich in fish, birds and spectacular scenery. These facilities are within walking distance of the Morro Bay State Park 18-hole Golf Course, the Morro Bay State Park Museum of Natural History and the Morro Bay State Park Campground. Below is a brief description of the marina and café.

The Bayside Cafe

The Bayside Café is situated in an attractive, well maintained wooden structure along the waterfront with direct views of the bay. The overall ambiance is an authentic and casual waterfront café. According to the current concessionaire there are approximately 50 seats inside the main dining room and an addition 45 seats on the patio, which has outdoor heaters.

Marina Facilities

The Morro Bay State Park Marina consists of 114 slips. The current concessionaire states they can accommodate boats of 25 to 45 feet. The slips are fully occupied and there is a wait list of approximately 30 boats. The only other salt water slips within a 100-mile radius are the 185 recreation slips available in the Morro Bay Harbor. These are located in two small marinas of 25 slips each and in scattered locations along the waterfront. The next closest salt water slips are in Monterey (130 miles north) and Santa Barbara (106 miles south). These slips are full and have a wait list. There is unlikely to be any new salt water marinas built in this area in the future.

ANALYSIS OF OPERATIONS

This analysis included:

- A review of demographic trends in the region
- A review of tourism trends in the region
- A review of boat ownership trends in the market area
- A review of restaurant expenditure patterns in the area
- A survey of comparable salt water marinas on the Central Coast
- A survey of comparable cafes in Morro Bay
- A survey of local boat rental facilities
- A review of industry standards for sales and operating ratios for comparable restaurants
- A review of industry standards for sales and operating ratios for comparable marinas
- A review of recent operating statements from the Morro Bay Café and Marina

- Interviews with individuals familiar with the facilities and the local market including DPR Staff, the current concessionaire, the Director of the Morro Bay Harbor Department and others
- A visual inspection of the current facilities.

Based on all of this information, the analysis prepared a proforma projection of revenues and expenses for the two facilities. These projections of revenues and expenses and the resulting Net Operating Income (NOI) then formed the basis for the Financial Analysis.

FINANCIAL ANALYSIS

No detailed physical analysis or plans have been done for the structures and there are no current estimates of the costs to undertake the required dredging and other improvements at the site. Thus, the purpose of the financial analysis is to determine the maximum amount the concessionaire could contribute to the future dredging and improvement costs for the two facilities. The financial analysis starts with the NOI projections derived in this report and then adjusts for fixed expenses including a maximum amount of contribution to improvements. A full financial analysis was undertaken for the marina and the café as well as for the combined operations. This will allow DPR to identify potential sources of funds from each operation in the event they decide to issue to separate Requests for Bids for each use. Each of these analyses was run using three financing approaches (scenarios). A total of six proforma 30-year cash flows are included in this report.

The financial analysis was done for three financing approaches (scenarios). In all of the scenarios, all of the projected funding for improvements in the analysis is derived from the concession operations. **No public funding is included anywhere in this financial analysis.** Supplemental public funding may be added later, as needed. The only difference in the scenarios is how the payments for improvements are collected, the particular financing vehicle used, who controls the funds and how they are administered.

- **Scenario 1: Public Financing Vehicle (no public investment beyond the payments from operations).** This scenario assumes that the concessionaire receives sufficient income to cover all expenses, pay the same percentage Rent to the State as is currently paid and provide a reasonable operating profit. All of the remaining revenues are collected by a public agency (DPR or City) and used to defray the costs of improvements. The public agency can use these funds to amortize a bond or they can simply earmark the funds and use them to pay for improvements as available.

- **Scenario 2: Public Wait & Save**. In this scenario the public agency receives the same amount of funds. But instead of using the concessionaire payments as they are received, a Capital Improvement Account is set up to accumulate the funds. They simply save the funds (at 3% interest) and spend it in lump sums for improvements. The funding from the concessionaire is the same as Scenario 1, but it supports more investment because it is saved and invested rather than being used as it is received.

- **Scenario 3: Private Financing.** In this scenario the concessionaire retains all of the revenues that would have been paid to public agencies in Scenario 1 or 2 and uses them to amortize the maximum debt they can support through private loans. The

concessionaire is also expected to invest equity (30%) per a normal commercial loan agreement. In this case, the concessionaire is allowed sufficient income to provide a reasonable ROI/IRR on their equity investment. This approach generates the least amount of improvements because it uses loans and equity investments which have higher costs. This scenario is the typical DPR approach where the concessionaire arranges their own financing rather than make payments to DPR for improvements.

The results of all of the detailed financial analysis in this report are summarized below. For a more detailed explanation, see the body of this report. The estimated total amount of supportable investment from the facilities under the three financing approaches is shown below in Table S-1.

Table S-1
IMPROVEMENTS SUPPORTABLE BY OPERATIONS
(Based on a 30 Year Contract Term)

	Scenario 1 Public Finance	Scenario 2 Wait & Save	Scenario 3 Private Loan
Total Marina and Cafe	**11,757,178**	**15,703,586**	**9,142,857**
Supported by Café	3,664,608	4,894,669	4,285,714
Supported by Marina	8,092,570	10,808,917	4,857,143

As shown in the table, there is a wide range of supportable investment for the required improvements, depending on the approach to financing which is selected. However, in all financing scenarios there is the potential to receive a substantial contribution to the improvement costs from the concessionaire(s). Note that the total supportable investment can be spent on any required investment for these facilities regardless of whether they are for the marina or the café.

Table S-2 summarizes the allocation of the profit from 30 years of operations (before rent and investment) among the concessionaire, the payments for improvements/amortization and Rent to the State.

Table S-2
ALLOCATION OF TOTAL NOI FOR
THE MARINA AND CAFÉ COMBINED

	Scenario 1 Public Fin. Vehicle		Scenario 3 Private Loan	
	$	**%**	**$**	**%**
Rent to State	5,049,783	20%	5,049,783	20%
Improvement Payments	14,808,849	59%	9,884,160	39%
Profit	5,418,720	21%	10,343,409	41%
Total (NOI)	25,277,352	100%	25,277,352	100%

In all cases, the Rent to the State is set to remain at the same percentage of revenues as it is currently and it is not spent on improvements. As can be seen, the total of concessionaire improvement payments plus profit is the same for all scenarios. But more of this total is allocated to profit in Scenario 3—the private finance alternative, because in this scenario the concessionaire must receive a return on their equity, which reduces the amount available for improvements.

Only the Scenario 3 analysis shows an IRR because only this scenario requires equity investment. The projected IRR target for the two uses is considered to be reasonable for the level of equity investment and for a project of this type. While there are some unknowns, it is assumed that a public agency will obtain all required permits and commitments for all necessary funding before soliciting a concessionaire. If this is done and considering that both concessions have a long track record of successful operation, these IRRs and the total profits are considered to be adequate to attract an investor/concessionaire.

The analysis also compares the current and projected amount of Improvement Payments for the concessions. Currently the two concessions combined pay approximately 8% of revenues for rent to the City and the Major Maintenance Account (MMA), which generates approximately $125,651 per year. The projections show this amount can be earmarked for improvements and it can increase substantially due to several factors:

- The current City rent and MMA are allocated to improvements.
- An additional annual payment of 6.2% for the café and 10% for the marina is added.
- Revenues are increased initially from price increases, operating efficiencies and marketing initiatives.
- Thereafter, all revenues are escalated at 3% per annum.

Based on these assumptions and factors, it is anticipated that the average annual payment from the two facilities for improvements could provide twice the current amount by year four and three to four times this amount (including escalation) on average over the next 30 years. Note that the current percentage Rent to the State is assumed to remain the same and these payments are not allocated to support future improvements in the analysis.

The current lease rate for the café is assumed to remain the same for purposes of the analysis in order to calculate the maximum amount the concessionaire could contribute to improvements. However, it is anticipated that in the Request for Bids the bidders will be given leeway to propose both a lease rate and a level of improvements. In this case, DPR anticipates that the current rate of 6.8% of café revenues will be the minimum allowed lease rate in the bid and the actual rent percent could be higher.

2. THE SITE AND REGIONAL BACKGROUND

This section of the report describes the region, the site and the current development at the Morro Bay State Park Marina and Café.

THE LOCAL AREA

Morro Bay is a major tourist destination along the Central California Coast. See Figure 1. It is located approximately midway between Los Angeles and San Francisco.

Figure 1
Map of the Central Coast of California

Morro Bay is well known for its bay, which is designated as a National Estuary, its active fishing industry and Harbor and the imposing Morro Rock at the entrance to the Harbor. The Morro Bay Harbor offers a full range of services for both the commercial and pleasure boater, including slips, moorings, vessel haul out and storage, marine sales and service, public pump-out stations, public showers, old disposal facility and others. The City operates T-piers, a floating dock and anchorage area available to transient vessels. Use of the City launch ramp at Tidelands Parks is free.

According to the Chamber of Commerce, the city has 35 hotels and motels. In addition it has four private RV Parks, and most significantly nearby are two State Parks and a State Beach with a total of 263 campsites, including 134 campsites at Morro Bay State Park where the marina and cafe are located. The waterfront along the Embarcadero is an attractive area for shopping, dining, waterfront activities and simply enjoying the views and activity of an active fishing port.

THE SITE AND CURRENT FACILITIES

The Morro Bay State Park Marina and Café are located at the southernmost part of the Harbor and are situated within the Morro Bay State Park. The marina offers direct access to the National Estuary which is rich in fish, birds and spectacular scenery. These facilities are within walking distance of the Morro Bay State Park 18-hole Golf Course, the Morro Bay State Park Museum of Natural History and the Morro Bay State Park Campground. Below is a brief description of the marina and café. (See Section 4 for more detailed information.)

The Bayside Cafe

The Bayside Café is situated in an attractive, well maintained wooden structure along the waterfront with direct views of the bay. The overall ambiance is an authentic and casual waterfront café. According to the current concessionaire there are approximately 50 seats inside the main dining room and an addition 45 seats on the patio, which has outdoor heaters. The concessionaire recently refurbished the outdoor patio with a laminated wood deck at a cost of $20,000. The facilities also include two trailer pads directly behind the café, which are currently occupied with two small mobile homes occupied by employees and could be an additional source of income for the concessionaire.

Marina Facilities

The Morro Bay State Park Marina consists of 114 slips of the following lengths:

25'	55 slips
32'	44 slips
40’	15 slips

The current concessionaire states they can accommodate boats of 25 to 45 feet. The slips are fully occupied and there is a wait list of approximately 30 boats.

The only other salt water slips within a 100-mile radius are the 185 recreation slips available in the Morro Bay Harbor. These are located in two small marinas of 25 slips each and in scattered locations along the waterfront. The next closest salt water slips are in Monterey (130 miles north) and Santa Barbara (106 miles south). These slips are full and have a wait list. There is unlikely to be any new salt water marinas built in this area in the future.

The concessionaire also operates a rental operation for kayaks, canoes and aluminum rowboats called the Kayak Shack. Immediately adjacent to the marina is a small boat launch and two restrooms maintained by the State Department of Parks and Recreation. There is also parking for 149 cars along the sea wall immediately adjacent to the marina.

In general, the site is attractive and well maintained. Being situated in a State Park, the environment is very natural and physically appealing. During the course of our assignment, several people commented that this marina is considered to be one of the best locations in the area for berthing a sailboat.

MARKET DEMOGRAPHICS

Population and Income

Table 2-1 summarizes the demographics trends in San Luis Obispo County and California.

Table 2-1
POPULATION TRENDS IN CALIFORNIA
AND SAN LUIS OBISPO COUNTY

	San Luis Obispo Co.	California	Morro Bay
Population-2012	274,804	37,999,878	10,370
Population % change (2010-2012)	1.9%	2.0%	-
Median Household Income (2008-2012)	59,628	61,400	48,604
Persons 65+ years (2012)	16%	12%	
Projected Population			
2015	273,793	38,801,000	
2025	299,996	42,451,000	
% Increase	10%	9%	
California Per Capita Personal Income			
2008		43,609	
2013		47,401	
% Inrease		9%	

Source: US Census, California Department of Finance,
Department of Commerce-Bureau of Economic Analysis and Pacific Group

As show, San Luis Obispo County is projected to increase 10% to almost 300,000 by 2025. The median household income is $59,628 approximately the same as the statewide average of $61,400.

Restaurant Expenditures

Table 2-2 presents statistics on expenditures in full service and limited service restaurants for California and for San Luis Obispo County.

Table 2-2
EXPENDITURES IN RESTAURANTS IN THE MARKET AREA
(2012-$000)

	Full Service	Limited Service	Total
California-total	29,578,793	25,966,454	59,037,320
California per capita	781.01	685.63	1558.85
San Luis Obispo Co.-total	317,084	164,501	499,765
San Luis Obispo Co.-per capita	1,154	599	1,819

Source: California Board of Equalization and Pacific Group

As shown, the expenditure per capita for full service restaurants is significantly higher than for California as a whole. Generally this is an indication that the county is a tourist destination that attracts expenditures from nonresidents. This is certainly true for the City of Morro Bay which has over 70 eating establishments including 27 restaurants and cafes along the Embarcadero.

Boat Ownership

Boat ownership by type of boat is one measure of the potential market for boat slips. There is no method that can project demand exactly, but it is possible to derive an indicator of potential demand. Table 2-3 summarizes statistics from the California DMV on boat ownership in California and selected counties surrounding Morro Bay.

Table 2-3
NUMBER OF PLEASURE BOATS REGISTERED IN CALIFORNIA AND SELECTED COUNTIES

	2014 (1)	2011
San Luis Obispo	12,413	12,043
Monterey	7,507	7,431
Santa Barbara	8,918	8,876
Subtotal	28,838	28,350
Kern	16,121	15,824
Kings	2,776	2,756
Tulare	8,655	8,381
Fresno	21,246	20,715
San Benito	1,700	1,632
Subtotal	50,498	49,308
Total Local Market (2)	73,093	71,445
California Total	807,537	797,552
Local Market share	9%	
CA Total sailboats	42,282	
% 20' to 50'	67%	
CA Sailboats 20' to 50'	28,130	
Local Market		
% in local market	9%	
Sailboats 20'-50' local	2,546	
Total salt water slips-local (3)	871	
Bertable sailboats per slip	2.92	

(1) As of January.
(2) Excludes70% of Santa Barbara County boats.
(3) In SLO and Monterey County.
Source: California DMV and Pacific Group

As can be seen, there are a substantial number of pleasure boast in San Luis Obispo County and the seven surrounding counties. Since the southern portions of Santa Barbara County would be more likely to prefer slips to the south, the table includes only 30% of the Santa Barbara County boats to estimate the total pleasure boats in the local market at 73,093. This table also shows the total sailboats in California and the number of these that are 20’ to 50’ in length. Assuming the local counties have the same proportion of these boats as they have of total pleasure boats, the table calculates a total of 2,546 sailboats in the local market of 20-50 feet. When this figure is compared to the total salt water slips in the local area, including Morro Bay Harbor, Moss Landing and Monterey Harbor and Breakwater Cove in Monterey, it can be see that there are almost 3 times as many sailboats in the local market as there are salt water slips. Indeed, the marina currently has 5-10 power boats, and the ratio of boats to slips would be even higher if these types of boats were to be included in the statistics.

TOURISM TRENDS

In evaluating marinas and waterfront cafes, particularly when located in a State Park within a tourist destination, it can be useful to review the general tourism trends in the region. This is done in Table 2-4, which presents statistics on recent tourism trends in San Luis Obispo County.

Table 2-4
TOURISM INDICATORS FOR SAN LUIS OBISPO COUNTY
($Millions)

	2002	2007	2011	2012	2013	Annual % Change
TOT Receipts						
SLO Total County	16.0			25.4	27.4	6.5%
Unicorporated County (2)	4.3			6.4	7.3	6.3%
Room Sales						
SLO County	167.0			260.7		5.6%
Unicorporated County	47.7			71.0		4.9%
Spending by Accomm Type						
CG	95.4		103.5	106.0		1.1%
Hotel/Motel	480.5		692.7	762.0		5.9%
Total	900.0		1,211.0	1,318.0		4.6%
Total spending-SLO County		1,138.0		1,300.0		2.8%
Spending on eating and drinking		308.0		378.0		4.5%
Spending on accommodations		264.0		301.0		2.8%
San Luis Obispo/Paso Robles						
Occupancy rate-lodging			59%	65%	68%	9.0%
Rev Par (1)			71	77	84	9.2%
Increase in Rooms sold (2011-2012)						4.7%

(1) RevPAR (revenue per available room) = ADR X occupancy rate.

Source: CTTC, Dean Runyan and Pacific Group

As shown, virtually every indicator of tourism in the region has been growing at a significant annual rate.

3. CHARACTERISTICS OF COMPARABLE PROJECTS

This section reviews the characteristics of selected comparable projects for the café and the marina.

COMPARABLE CAFÉs

There are many restaurants in Morro Bay serving both locals and visitors. However there are only a few that are full service, high quality and directly on the waterfront. This report evaluated three of these restaurants which are consider to be comparable to the Bayside Café.

- Window on the Water
- Rose's Landing
- Dutchman's Seafood

Table 3-1 summarizes the characteristics of these selected waterfront restaurants in Morro Bay.

Table 3-1
CHARACTERISTICS OF SELECTED WATERFRONT RESTAURANTS IN MORRO BAY

	Bayside Cafe	Windows on the Water	Rose's Landing	Dutchman's Seafood
Seating capacity inside	53	150	100	80+
Seating capcity-outside	45	-	patio	20
Alcohol served (1)	BW	BWL	BWL	BWL
Lunch served	Daily	Daily	Daily	Daily
Dinner Served	Thurs-Sun	Daily	Daily	daily

(1) Beer, Wine, Liquor
Source: Pacific Group Survey of Selected Restaurants in Morro Bay

As can be seen in the table, all of these restaurants are open for lunch and dinner seven days a week except the Bayside Cafe. In addition they all have a liquor license except The Bayside Café. On the other hand, the character of these three restaurants seems to be more "touristy" than the Bayside Café in terms of the location, service, atmosphere and décor.

Table 3-2 presents a summary of the prices at these three restaurants and the Bayside Café for similar types of dishes.

Table 3-2
COMPARATIVE PRICES AT SELECTED WATERFRONT RESTAURANTS IN MORRO BAY (1)

	Bayside Cafe	Windows on the Water	Rose's Landing		Dutchman's Seafood
			Bar&Grill	Steak&Seafood	
Lunch					
Soup or salad	6-9		6-9		8-13
Starters	7-13		6-15		10-13
Entres	9-12		11-16		10-17
Dinner					
Starters	7-13	15-18		13	9-15
Entres	19-25	30-39		28-34	15-30
Desserts	6	6-9		9-10	
Specialty drinks	na	10-15	8	8-10	

(1) Prices are the predominant range.
Source: Pacific Group Survey of Selected Restaurants in Morro Bay

In general all of the other waterfront restaurants surveyed had a higher price range for most categories of dishes. While it is not suggested that the Bayside Cafe should try to match these higher prices, this does seem to suggest that limited price increases could be initiated without a major impact on the café's competitiveness.

COMPARABLE MARINAS

Marinas have many different characteristics, services, sizes and management structures. This makes it difficult to establish what a true comparable marina is. Firstly, we focused on salt water marinas because it is generally accepted in the industry that the experience and ambiance of a salt water marina is very different from an inland marina and appeals to a different market segment. Morro Bay Harbor and the State Park Marina are the only salt water marinas within a 100 mile radius of Morro Bay on the Central Coast of California. In this way, these two areas are the only option for boaters who wish to berth their boats within this 200 mile stretch of the Central Coast of California. (Port San Luis 25 miles south of Morro Bay offers moorings but no slips.)

There are a few marinas on the coast which are somewhat comparable and possibly competitive with the Morro Bay Marina and which can provide some useful comparisons. However, in reviewing these marinas it is important to be cognizant of the differences among them. This analysis focuses on six marinas, but they vary in terms of their relevance. The salient characteristics of these marinas are presented in Table 3-3.

Table 3-3
CHARACTERISTICS OF OTHER SALT WATER MARINAS

	Monterey Harbor	Breakwater Cove	Harbor District	Santa Barbara Harbor	Vintage Marina	Morro Bay Harbor (2)	MBSP Marina
Location	**Monterey**	**Monterey**	**Moss Landing**	**Santa Barbara**	**Oxnard**	**Morro Bay**	**Morro Bay**
Distance from MB	130	130	140	106	145	-	-
No. of Rec. Slips	300	72	200	1030 (total)	145	185	114
Size Range	20-50	20-50	20-60	20-100	25-50	30-60	20-45
Rent per foot (1)	9.04	14.32	8.50	9.14	13.16	9.00	6.00
Wait list	yes	yes	no	yes	yes	yes	yes
Services							
Visitor's Dock	x	x	x	x	x	x	
Store		x	x	x		x	
Restaurants	x	x	x	x		x	x
Fuel	x	x	x	x		x	
Launch Ramp	x	x	x	x		x	x
Bilge pump-out	x	x	x	x		x	
Oil pump-out	x	x	x	x		x	
Restrooms	x	x	x	x	x	x	x
Showers	x	x	x	x	x		
Boat Rental			x	x		x	
Haul out/hoist	x		x	x		x	

(1) Average for boats of 25' to 40' in 2013.
(2) Number of slips and average rates provided by Morro Bay Harbor Department.
Source: Pacific Group Survey of Salt Water Marinas on the Central Coast

There are several important points that can be derived from this table:

- Morro Bay Harbor has approximately 185 recreation slips in two small marinas of 25 slips each and scattered along the waterfront. These slips are fully occupied and have waiting lists.
- All of the other marinas in the table are over 100 miles from Morro Bay.
- Two of the marinas in Southern California (Santa Barbara Harbor and Vintage Marina) have significantly higher slip rental rates than Morro Bay—primarily due to the warmer weather and significant market population.
- Virtually all of the marinas have a long wait list and in some cases there is a substantial fee charged to transfer a wait list position.
- All of the marinas offer a wider range of services and amenities than the State Park Marina, although most of these services are available in the nearby Morro Bay Harbor.
- All but one of the marinas have significantly more slips than the State Park Marina.
- All of the marinas charge significantly higher rates than the State Park Marina.

Slip Rental Rates

Table 3-4 focuses on the rental rates for these marinas.

Table 3-4
SLIP RENTAL RATES AT COMPARABLE MARINAS

Marina	Rate per Foot (1)	
Monterey Harbor	9.04	
Breakwater Cove	14.32	
Moss Landing	8.59	(2)
Santa Barbara Harbor	9.14	
Vintage Marina, Oxnard	13.16	
Morro Bay Harbor-slip	9.00	(3)
Morro Bay Harbor-mooring	8.33	
Morro Bay State Park Marina	6.00	
Average-comps only-2013 (4)	8.82	
Average-comps only-2015 (5)	9.35	

(1) Rates are the average for 25'to 40' boats in 2013.
(2) Rate includes a $47 per month amenity fee.
(3) Midpoint of the range estimated by Morro Bay Harbor Departmen
The rate for moorings in Morro Bay averages $250 per
per month, which for a boat of 30' would be $10 per month.
(4) Average excludes Breakwater, Vintage, Santa Barbara
and Morro Bay State Park, but includes Morro Bay Moorings.
(5) Inflated at 3% per annum for two years.
Source: Pacific Group Survey of Salt Water Marinas

This table presents the average rate for slips of 25 to 40 feet for all of these marinas. However, it also presents an average rate for selected marinas considered to be most comparable to the State Park Marina. This rate is $8.82 per foot as of 2013. Virtually all marinas escalate their fees each year by 3-4%. Table 3-5 shows that making this adjustment to the current average rates for comparable marinas would result in an average rental rate of $9.35 per foot by 2015.

It should be noted that these fees do not include the costs of parking. Moss Landing provides one free space per boat. Monterey Harbor provides one lower cost parking permit per slip. But for most of these marinas, there can be a significant cost to park for the boat owner and any crew or guests. For example a $10 parking fee 4 times a month would add $1.30 per foot costs per month for a 30’ boat.

LOCAL BOAT RENTALS

The State Park Marina also includes a boat rental operation which rents kayaks and canoes. In addition, tours are available from an independent company. The boat rentals currently generate approximately 32% of the marina’s total revenue. There are numerous locations along the waterfront in Morro Bay that offer kayak and canoe rentals and related services. Table 3-5 summarizes the prices and services offered at five of these facilities.

Table 3-5
RATES PER HOUR AT SELECTED BOAT RENTALS IN MORRO BAY

	Kayak-single	Kayak-double	Canoes	SUP (4)	Elec Boats	Tours
Kayak Shack	12/6	16/8	14/7			55-79(3)
Sub Sea Tours	10/5	20/10	25/10 (5)	15/5		14
Central Coast				20		at Kyak Shack
Kayak Horizons	12/8	18/10 (2)	22/10	12/8		59
Rock Kayak	12/8	20/8		15/8		by appt.
Catch the Wind					75	tiki boat

(1) First hour/each additional hour.
(2) With rudder, $22/$10.
(3) Through Central Coast
(4) Stand Up Paddleboard.
(5) 3-5 person canoe=30/15 per hour.
Source: Pacific Group Survey of Boat Rentals in Morro Bay

There are several points that can be seen in this table:

- There are only three facilities that offer kayak and/or canoe rentals besides the Kayak Shack.
- All three of these have higher rates than the Kayak Shack for kayak and canoe rentals.
- All three of these facilities plus Central Coast Tours offer stand up paddleboard rentals.
- All of the competing operations offer tours. Kayak Shack offers tours only through a separate company.

This suggests that there may be opportunities to increase the revenues from the rental operations.

4. IMPROVEMENT PROGRAM AND COST ESTIMATE

This section of the report describes the Preliminary Improvement Plans for the marina and cafe and presents a discussion of preliminary improvement costs. Figure 2 depicts the site.

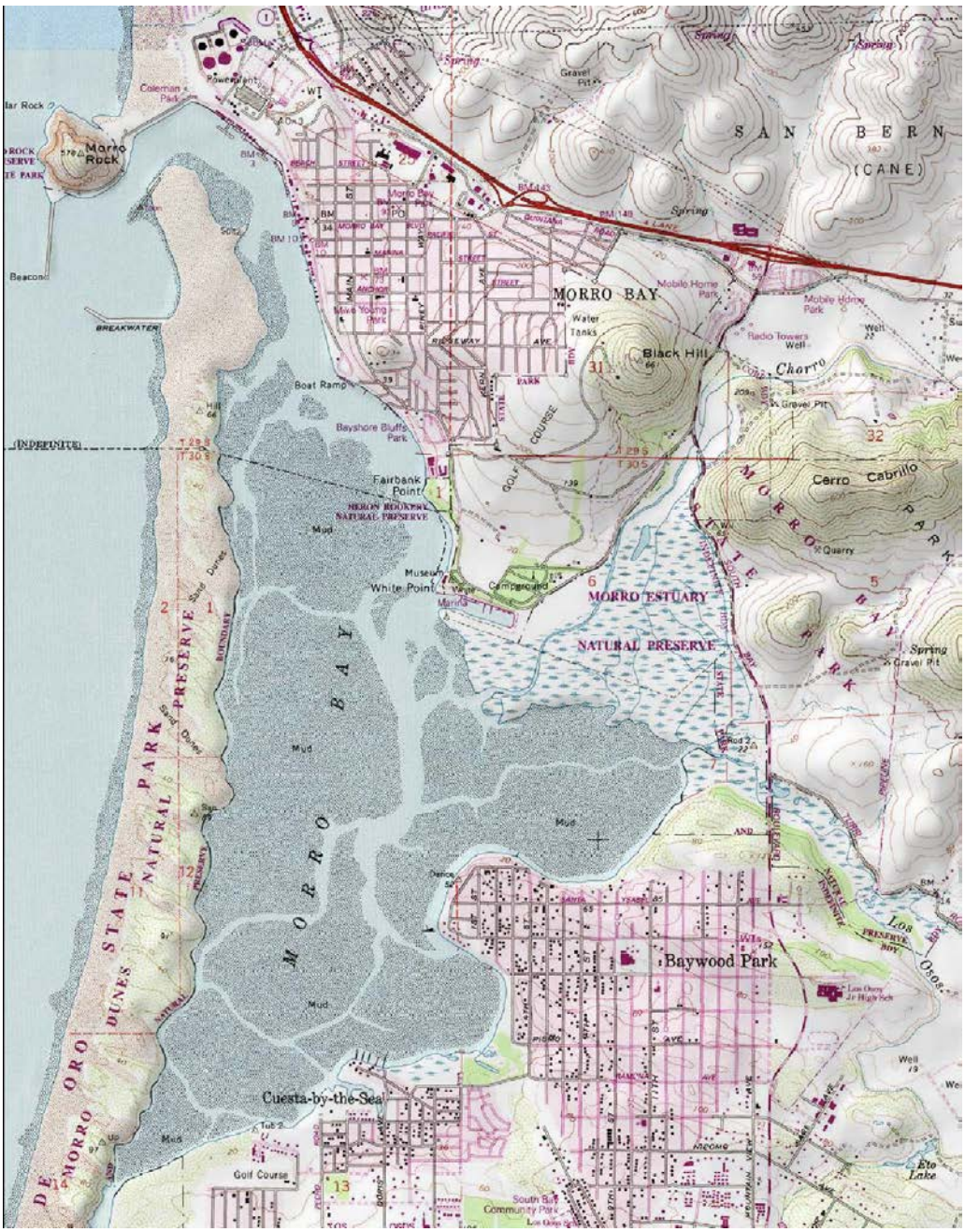

Figure 2
Site of Morro Bay State Park Marina and Café

IMPROVEMENT PROGRAM

Throughout this report, the terms "Improvements" and "Improvement Costs" are used to refer to any and all improvements to either the marina or café facility. This can include dredging, marina renovations, any required replacement or refurbishment of existing slips and gangways, or any improvements to the café.

Bayside Café

The original café was built in 1949 but has undergone substantial expansion and renovation since then. Currently the café consists of:

- Indoor seating area with direct view of the marina--50 seats
- Outdoor patio with heaters on side an behind the café--44 seats
- Lunch counter--4 seats
- Kitchen
- Parking-direct access to the 149-space parking lot serving the marina and cafe.

In addition there are two pads with hook ups directly behind the café, which are currently occupied by two mobile homes.

A detailed structural analysis of the café has not been performed as part of this study. A brief walk through and discussions with the concessionaire and with DPR staff indicate that there are no known significant physical problems with the building. The decking for the outdoor patio was just recently replaced with a laminate wood surface at a cost of approximately $20,000. There may be a need to make minor improvements to meet ADA standards. Preliminary estimates indicate this will be a relatively small amount and would easily be covered by the repair and maintenance budget included in the revenue and expense projections later in this report.

One of the primary appeals of the café is its ambiance as a waterfront café, with the feel of an authentic, casual restaurant which fits well with its dockside location and park-like setting. Any remodeling or expansion would most likely want to retain this weathered character of the building. However, this analysis does not anticipate any major new investment in the café, except for any required ADA improvements and the normal level of ongoing repair and maintenance.

Morro Bay State Park Marina

The Morro Bay State Park Marina is located adjacent to the National Estuary within the Morro Bay State Park, approximately 2 miles from the center of the waterfront in Morro Bay. The Marina was built in 1949. It consists of:

- 114 slips ranging in size from 25 to 40 feet, which can accommodate boats up to 45 feet
- Water and electric service for all slips
- Dockage for approximately 22 skiffs
- A small building on the dock (The Kayak Shack) is used for renting kayaks and canoes
- A small boat launch
- Direct access to the parking spaces located adjacent to the docks
- Fueling and pump-out services and haul-out are available at various locations in the main Morro Bay Harbor.

No detailed analysis of the structural condition of the docks was conducted as part of this study. A brief tour and visual inspection suggested that the Marina is generally well maintained and in good condition, although much of the structure is quite old. Over the past 12 years approximately 15% of revenue has been invested by the concessionaire in major maintenance projects for the facilities. Examples of major maintenance items addressed in 2008-09 are:

Reconstructed and enlarged the Kayak launching and recovery docks
Finger piers on a number of Docks
Electric switches replaced upgraded and new conduit on most docks
Reconstruction of dock #2 finger piers
Reconstruction of storm damage to dock 7 and dock 4
Ongoing replacement of finger floatation, dock connections and pile hoops
Electrical circuit repair and replacement
Fire system replacement on many dock sections
Total Costs-$77,782

The Morro Bay Harbor Department anticipates that there are still improvements that need to be made including replacing some gangways.

Over the years, being at the southernmost point in the harbor, the State Park Marina has experienced a silting problem. The main channel from the harbor entrance is well maintained by periodic dredging by both the U.S. Army Corp of Engineers and the City of Morro Bay. Every five years The U. S. Corp of Engineers does major dredging for the harbor channel down to the boundary of the State Park, which is approximately a half mile from the MBSP Marina. In addition the City does some dredging every year for their moorings.

However, the location of the Morro Bay State Park Marina at the farthest inland point of the estuary has resulted in the accumulation of silt. The main channel into the marina was recently dredged and is relatively clear, but the slips are silted and some of them experience limited difficulty of access during low tide. The current concessionaire estimates that approximately 60 slips (Docks 5, 6 &7) in the marina are somewhat tidal dependent. This means that during certain hours of the day it is difficult to maneuver in and out of these slips. So far they have been able to deal with this issue by assigning smaller vessels to the most affected slips, explaining the problem before renting slips and working with the tenants on an individual case by case basis. However, obviously the efficiency of the marina operations would be enhanced by undertaking the appropriate dredging of these slips.

In 2011, the City of Morro Bay undertook a dredging operation which removed approximately 30,000 cubic yards of dredged material from the State Park Marina. But it is estimated that another 60,000 cubic yards remains to be dredged.

PRELIMINARY COST ESTIMATE

Throughout this report, the term “Improvement Costs” is used to refer to any and all improvements to either the marina or café facility. This can include dredging costs, marina renovations, any required replacement or refurbishment of existing slips and gangways, or any improvements to the café. These costs are to be distinguished from normal ongoing maintenance

and repair expenses, which have been included in estimates of operating expenses for the facilities.

Bayside Café

During the courses of this study no significant structural improvements needed for the café were identified to the consultant, except for ADA improvements which are expected to be relatively limited. Based on a DPR ADA Survey, DPR staff estimates these costs would be minimal—probably $30-$40,000. This amount could easily be covered by the normal amount of repair and maintenance expense included in the proforma. However any potential bidder for this concession should conduct their own due diligence of the building.

Morro Bay Marina

A normal amount for ongoing repair and maintenance is included in the projected revenues and expenses for the marina presented later in this report. In addition the City of Morro Bay provided a preliminary estimate of the possible costs for the dredging operation. These estimates are summarized in Table 4-1. However any potential bidder for this concession should conduct their own due diligence of the facilities.

Table 4-1
PRELIMINARY COSTS ESTIMATES
FOR MARINA IMPROVEMENTS
(2015 Dollars)

	Total
Dredging 60,000 cubic yards (1)	3,000,000
Marina renovations (2)	4,994,600
Subtotal	7,994,600
Added cost if dispose inland	unknown

(1) If current permits are used and dredged material is disposed of offshore.
(2) Based on: "Preliminary Engineering Report, Marina Renovation Morro Bay SRA", December 2002.
Source: City of Morro Bay, Harbor Department

The biggest unknown in these costs estimates is whether the dredged material can be disposed of off shore, which was done for the first phase of dredging. However, if the dredged material must be disposed inland, the costs could increase substantially. As of now, no disposal site has been identified and no one knows what this would cost.

Site Utilities

According to DPR Staff, the infrastructure at the site is underpowered for the needs of the concessions. Also the electrical/water in the café needs to be brought up to code requirements. A specialist would need to assess the needs of the operations and evaluate the current condition of the systems in order to get a better overall picture for the condition and repair/replacement needs.

The financial analysis later in this report estimates the amount that a concessionaire could contribute to defray these costs.

5. PROJECTED OPERATIONS

This section of the report first reviews the current operations, then considers industry standards for similar operations and finally present a projection for future operations. This is done for both the Bayside Café and the State Park Marina. All of the projections reflect the fact that DPR is facing substantial costs to make improvements to the marina and revenues from these two concessions will necessarily be a significant source of funding for this work. The operating projections in this section are incorporated into the financial analysis in the following chapter which starts with the Net Operating Income and then nets out rent and other fixed charges, including the costs of dredging.

CAFÉ OPERATIONS

Current Operations

The café is currently on a month to month lease under the following rent terms:

- 5% of food and beverage receipts up to $12,000
- 7% of food and beverage receipts over $12,000.
- Plus the concessionaire must allocate 2% of gross sales for café maintenance.

The average rent percentage paid by the café has consistently been 6.8% of receipts in recent years, as shown in Table 5-1.

Table 5-1
GROSS SALES AND RENTS FOR THE CAFÉ
FY 07/08 to FY 12/13

Fiscal Year	Gross Sales	Rent to DPR (1)	Rent Percentage
2012-13	$1,245,679	$85,098	6.8%
2011-12	$1,123,915	$76,574	6.8%
2010-11	$1,069,660	$71,996	6.7%
2009-10	$1,075,136	$72,380	6.7%
2008-09	$1,182,890	$79,922	6.8%
2007-08	$1,110,784	$75,830	6.8%
Annual Growth		2.32%	

(1) 5% up $12,000 gross, then 7%.
Source: DPR from Form 54.

In part, because the café is not located in the major tourist area of the downtown waterfront, the local population is their primary market. Many of the customers are long term customers, who are attracted by the waterfront ambiance, the quality food and in some cases, the proximity to the Morro Bay Golf Course. The 135-site Morro Bay State Park Campground also provides some additional support for the café.

Industry Standards for Operations

In order to evaluate the operations of the Bayside Café, we compared their sales and operating ratios with those of similar restaurants. As part of this evaluation we considered information

available from numerous industry sources including; Urban land Institute, Dollars and Cents of Shopping Centers, Restaurant owners.com Survey of Restaurants, National Restaurant Association Survey of Restaurant Operations-2010 and other sources. The National Restaurant Association survey breaks down the data into many useful categories by sales volume, number of employees and average check and thus is most pertinent.

The first step was to review the level of revenues at the café. Table 5-2 presents various industry standards for judging these restaurant sales.

Table 5-2
COMPARISON OF SALES FOR BAYSIDE CAFÉ
AND INDUSTRY STANDARD

Bayside Café-2013	
Total Sales	1,280,333
Seats	98
Sales per Seat	13,065
Employees	27
Sales per employee	47,420
Industry Standard (1)	
Sales per Seat	
Sales between $1-2 million	13,374
Sales of $2.0 million+	24,587
Avg check $25+	18,777
Avg check $25-33	17,772
Avg check $$33+	21,063
Sales per employee (FTE)	
Avg check over $25	65,200
Avg check $15-25	60,000

(1) National Association of Restaurants Survey, 2010, full service.

All of this data relates to full service restaurants. The sales per seat at Bayside Café ($13,065) is comparable to that for all full service restaurants with sales between $1.0 and $2.0 million ($13,374). However when compared to restaurants with an average check above $25, it has lower sales per seat ($13,065 versus $18,777). The same is true when the café sales per full time equivalent employee ($47,420) is compared to full service restaurants with an average check over $25 ($65,200 per employee) or with an average check of $15-$25 ($60,000).

Of course these standards are just indicators. Obviously the unique features of each restaurant play a role. Factors such as the waterfront location and the hours of operation need to be taken into consideration in any projections for the café. However, these comparisons do indicate that there may be opportunities to increase the revenues at the Bayside Café.

Using data from the National Restaurant Association Survey for full service restaurants, Table 5-3 compares operating ratios for the café and various industry standards.

Table 5-3
COMPARISON OF OPERATING RATIOS FOR BAYSIDE CAFÉ AND INDUSTRY STANDARD

Category	Bayside Café (1)	Industry Standard Median (2)	Variance from Standard	Upper Quartile
Total Cost of Sales	38%	33%	5%	35.8%
Operating Expenses				
Wages/Salaries & Benefits	35%	32%	3%	38.8%
Rent	6.8%	5.4%	1.4%	8.0%
Other Expenses	15%	27%	-12%	
Total Operating Expenses	57%	65%		73.8%
Cost of sales + Operating Expenses	**95%**	**97%**	-3%	
Net Operating Income	5%	3%	2%	6.6%

(1) Based on FY 12/13 Income Statement.
(2) National Association of Restaurants, 2010, full service, average check above $25.
Source: Bayside Café concessionaire and National Restaurant Association

For most of these major operating ratios, the Bayside Café is similar to the industry standard—the median for full service restaurants with an average check of $25+. In general, the café has a higher ratio of cost of sales and wages/benefits, but offsets this with a lower ratio for other expenses. As a result, the café is able to achieve a higher NOI ratio (5%) than the median for this category (3%). When cost of sales and operating expenses are combined, the café's total expenses are very similar to the industry standard. The ratios for the upper quartile of restaurants in this category are also shown. Note that these are the upper quartiles in each ratio and thus are not additive. But they do give an indication of the upper limit for each ratio. For example, the upper quartile pays 8% for rent versus 6.84% for the café. On the other hand, the café has an NOI of 5% compared to 6.6% for the upper quartile of NOIs in this category. But all of these ratios appear to be basically comparable.

Projected Operations

In general, the Bayside Café appears to be run relatively efficiently, both in terms of its sales and its operating expenses. However, given the need to identify funding to dredge the marina and maintain both the marina and café operations, there may be several things that could be done by a concessionaire to improve performance somewhat.

- Opening for dinner 6 nights instead of 4 nights. This would add 50% to the number of dinner seats available. Dinner currently represents 43% of total sales, so a 10% increase in sales due to expanded night service is reasonable to anticipate from this change. This might entail using part time employees which would not raise total expenses proportionately, but would certainly raise gross sales.
- Furthermore dinner prices are approximately twice the price of lunch and thus could contribute more than proportionately to revenues.
- Consideration should be given to obtaining a full liquor license to further boost revenues.
- While the café should not seek to match the prices at other waterfront restaurants, given the comparison of prices in Table 3-2 there appears to be the potential to raise prices an average of 5% and still remain competitive in the market.

- Activity at the marina is expected to increase with the planned dredging and other improvements, which should have a positive impact on the café sales.
- It is also reasonable to expect a 5% increase in overall business could be achieved with some additional marketing initiatives such as:
    - Coordinate marketing and packages with local hotels, especially for groups.
    - Expand use of the facilities for banquets, receptions and other special events.
    - Coordinate with DPR and the marina to sponsor periodic event at the marina.
    - Work with DPR to promote more with the guests at the Morro Bay State Park Campground and at the Natural History Museum, perhaps including a discount program—especially on during the expanded nighttime operations.

In light of all of these factors, it is reasonable to expect that these types of operating changes and marketing efforts could raise gross sales of the café by 15% over three years, in addition to inflation of 3% (i.e. 8% per annum for years 1 to 3). At the same time, increasing volume and using part time employees for some shifts could reduce the operating expenses ratio before rent slightly from 50% currently to 48%. The direct expense ratio of 35% is applied based on the industry standard for the median and the upper quartile shown above. The effects of these changes are shown in Table 5-4 for Year 1 of a new concession agreement.

Table 5-4
PROJECTED REVENUES AND EXPENSES FOR THE CAFÉ

		Year 1
Projected Gross Sales/Income (1)		1,423,872
Less: Direct Expenses	35%	498,355
Gross Income		925,517
Less: Operating Expenses	48%	683,459
Net Operating Income		242,058

(1) Sales increase 8% in years 1 to 3, then 3% escalation thereafter.

These operating projections are used in the following section of this report in the detailed 30-year cash flow projections for the café.

MARINA OPERATIONS

Current Operations

The marina is currently on a month to month lease under the following rent terms:

- 20% of gross sales
- Plus the concessionaire must allocate 15% of gross sales for major maintenance projects for the marina.

Under an operating Agreement signed with the City of Morro Bay in 2002, the City receives the 20% rent and monitors the 15% Major Maintenance Account and in exchange the City has taken responsibility for maintaining and improving the marina including any required dredging. The Gross Sales and Rent paid to the City in recent years are shown in Table 5-5.

Table 5-5
GROSS SALES AND RENTS FOR THE MARINA
FY 07/08 to FY 12/13

Fiscal Year	Gross Sales	Rent to City (1)	Rent Percentage
2012-13	$335,918	$67,184	20.0%
2011-12	$333,954	$66,791	20.0%
2010-11	$307,912	$61,582	20.0%
2009-10	$311,685	$62,337	20.0%
2008-09	$331,629	$66,325	20.0%
2007-08	$272,773	$54,556	20.0%
Annual Growth	4.3%		

(1) 20% of gross.
Source: DPR from Form 54.

Industry Standards

Marinas have many different characteristics, services, sizes and management structures. This makes it difficult to establish a true "industry standard" for any given marina. Firstly, salt water marinas are quite different from inland marinas in terms of customers, services and boating experience. Secondly, there are many types of salt water marinas including recreation, commercial, ports, boatworks and boat services. Thirdly, there are various types of management/ownership structures including private, municipal, harbor districts and combinations of these. Finally there are many types of services offered by marinas including fuel, dry rack storage, liveaboards, laundry, ship stores, boat repair, boat sales, and others. In fact many marinas are incorporated into mixed-use project and derive a large share of their revenues from non-marina activities such as retail and office lease, parking fees, day use fees and the like.

The Morro Bay Marina is also unique in various ways:

- It is located in a State Park.
- It does not need to provide or maintain parking and restrooms.
- It does not provide security service.
- It is located adjacent to a full service restaurant.
- It is not located within a major metropolitan area.

Thus, it is important to understand the nature and character of this particular marina. It is somewhat unique in that it is small for a salt water marina in California and one of the few with no ancillary services such as fuel, oil dumps, showers, boat storage, etc. The following analyses in this report focus on the most relevant comparables and industry standards for the Morro Bay Marina.

Slip Rental Rates

The first step in evaluating the operations of the marina was to review the current slip rental rates relative to other similar marinas. This was done in Table 3-4, which showed that the average

rental rate for comparable marinas in 2013 was $8.82 per foot and when adjusted to 2015 rates would be $9.35 per foot. This compares to the current rental rate at the marina of $6.00 per foot. One other indication that rates are below market is that the marina has been 100% occupied and there has been a long wait list for many years. Typically this is an indication that rates are below market. Many marina operators believe that there should be a minimum vacancy rate which reflects the normal friction and turnover in an efficient market at competitive rates.

Section 3 also included Table 3-5, which reviewed the rates at other boat rental facilities in Morro Bay. Based on this review, it appears that the rates at the Kayak Shack could be raised and that various complementary services could be added.

Operating Expense Ratios

In order to evaluate the operations of the Morro Bay Marina this report also compared their operating ratios with those of similar marinas. This analysis reviewed data from numerous sources including Robert Morris Associates Industry Benchmarks, Urban Land Institute, reports from selected marinas, recent research from trade publications (Boating Magazine, Marine Dock Age, etc.), National Marine Manufacturers Association, recent P&Ls from the current concessionaire, and the International Marine institute, which surveys over 1,000 marinas and complies operating data by marina size and performance. A brief summary of the relevant industry standards is shown in Table 5-7.

Table 5-7
COMPARISON OF OPERATING RATIOS FOR
MBSP MARINA AND INDUSTRY STANDARD

Indicator	Operating Expense Ratio (1)
IMI-Top 25% under $800,000 revenues	43%
IMI-private operators	43%
Valejo Municipal Marina	42%
San Francisco West Basin (2)	43%
MBSP Marina-average 2012/13	44%

(1) Ratio to total revenues. Excludes rent and depreciation, but does include normal maintenance and repair expense.
(2) Along the Marina Green
Source: IMI Survey of Marinas and selected marina operators.

For purposes of this analysis, the Operating Expense Ratio Before Rent is considered to be the most relevant. This is the factor that best illustrates the amount of income that remains for rent, improvements and profit. As can be seen in the above table, Operating Expenses Before Rent has been 44% at the Morro Bay Marina in the recent past. This is just slightly above the experience at other comparable marinas. As shown the top 25th percentile of marinas with revenues under $800,000 has an Operating Expense Ratio of 43%. Even the Vallejo Marina, which is operated by the city, has an operating expense ratio of 42% (excluding internal City overhead charges).

Some of the other factors considered in projecting the operating expense ratio for the marina are:

- There is no need for a full time on site personnel.
- There are no costs of goods sold (for fuel, merchandise, food and beverage, etc.).
- There is no labor costs for selling fuel, merchandise, food and beverage, etc.
- There is no security needed, since ark rangers provide this.
- There is no expense for land side maintenance for parking, restrooms, boat launch, etc.
- As revenues increase with fairly stable fixed costs, the expense ratio will decline.

In general, the State Park Marina appears to be run relatively efficiently in terms of its operating expense ratio. All of the reasons listed above, as well as the experience of comparable marinas, suggest that there may be room for a minor reduction in the Operating Expense ratio. However, because the marina and its revenue potential is quite small, this analysis keeps this ratio at the current level of 44%. Note that the sensitivity testing at the end of the report evaluates the effect if this ratio varies up or down by 2%.

PROJECTED OPERATIONS

Projected Revenues

There is strong evidence that the slip rental rates are below market rates for comparable slips. Raising slip rental rates is always controversial. However, in this case there is a clear need to increase the revenues from the marina to defray the costs of dredging and to maintain the long term viability of the facility. In fact, the financial analysis in the next section of this report does not seek to maximize slip rental rates but rather seeks to identify the minimum slip rental rate that is consistent with maintaining the marina operation.

While an increase in slip rental rates may cause some dislocation, it would not be expected to result in a significant vacancy rate. The Morro Bay Marina is considered to be the best location in the area due to its easy parking, natural setting and proximity to the Bayside Café. The potential for new interested boat owners would be drawn from a wide pool, including:

- Current users who stay—it is expected that most will
- The Wait List
- Moves from Harbor moorings--100
- Moves from Harbor slips--270
- Moves from Moss Landing, Monterey, Nacimiento, and other marinas.

It is common with well run marinas to have a small vacancy rate, which indicates that rental rates are at or close to market rate. However, Morro Bay Marina may have goals other than profit maximization.

Given the need to identify funding to dredge the marina and maintain both the marina and café operations, there may be several things that could be done by a concessionaire to improve marina performance:

- Plan and announce a dredging program.
- Plan and announce proposed improvements to the slips and gangways.

- Undertake an information campaign to inform current and future boaters of the plans for improvements.
- Coordinate marketing efforts with DPR including featuring it on the DPR website, to increase the marina's visibility and identity in the market.
- Coordinate a marketing effort with DPR to attract campers to the kayak rental and lessons.
- Consider adding a program for rental of sailboats, longboards, bicycles and/or paddle boats.

It is reasonable to expect that these types of operating changes and marketing efforts, as well as rate increases, could raise revenues at the marina in the following ways:

- In light of the typical rates for slips at comparable marinas, slip rental rates could be raised from $6 to $8.50 per foot, which would raise revenues from slips by 42%. This is not considered to be the maximum achievable rate but rather the minimum rate that will allow the marina to remain viable, keeping in mind that there are a relatively small number of slips and slip fees are the primary source of revenues. This rate increase should be coordinated with a public information campaign and dredging should begin coincident with or reasonably soon thereafter.
- Dredging will make it possible to attract larger boats but it is difficult to estimate how many since many existing boats will remain at the marina.
- Equipment Rentals-a joint marketing with DPR and a small rate increase could raise revenues by 20%. Perhaps there could be a program of sailboat rentals and sailboat lessons, bicycle rentals and paddle boat rentals. These types of activities could be an added attraction for campers at the campground.

The effects of these changes would be to increase revenues at the marina by 40% to $493,526 in Year 1 of a new concession agreement.

Projected NOI

Table 5-8 summarizes the impact of raising rates and expanding programs and marketing and also shows the projected operating expenses and NOI for year 1 of a new agreement.

Table 5-8
PROJECTED REVENUES AND EXPENSES
FOR THE MARINA

		Year 1
Projected Gross Sales/Income		474,919
Less: Direct Expenses	0%	
Gross Income		474,919
Less: Operating Expenses	44%	208,964
Net Operating Income		265,954

Using these assumptions and inputs, the Net Operating Income for the marina in year 1 is projected to be $265,954. This figure is then escalated over the 30 year term of a new concession agreement. The resultant Net Operating Income projections are used in the following section of this report in the detailed proforma cash flow for the marina.

6. PROJECTED CASH FLOW AND SUPPORTABLE INVESTMENT

This section of the report describes the basic inputs and assumptions, and then describes the results of the financial analysis. The financial analysis starts with the NOI projections from the previous section of this report and then adjusts for fixed expenses including the cost of dredging. A full financial analysis was undertaken for the marina and the café as well as for the combined operations. This will allow DPR to identify potential sources of funds from each operation in the event they decide to issue to separate Requests for Bids for each use. Each of these analyses was run using three financing approaches (scenarios). A total of six proforma cash flows are included in this report.

DEFINITION OF A FEASIBLE PROJECT

Feasibility analysis is an analysis of the future and thus is inherently based on judgment. In this sense, feasibility cannot be proven or disproven. The standard for testing feasibility is not absolute proof but whether it is a reasonable expectation.

This analysis has been conducted prior to solicitation or receipt of any specific proposals. As such it is intended as a prototype of what a typical proposal might look like under a set of reasonable assumptions. The circumstances and resources of bidders will vary widely and thus, so will the parameters of any bids received.

At this time there is not a recent and complete cost estimate for the required dredging and other improvements at the marina. There is also no identified public source of grants or subsidies for these costs. In light of this, the purpose of this study is to determine the maximum amount the concessionaire could contribute to these future costs and still meet these requirements:

1. Cover operating expenses and any fixed expenses including debt service
2. Pay Rent to the State at the current percentage rate at the cafe.
3. Return a reasonable profit to the investor.

GENERAL ASSUMPTIONS

The assumptions used for costs, revenues and expenses are based on industry sources, similar projects and discussion with numerous developers and operators. They are considered to be reflective of a midrange of proposals which might be received for this project. There are many combinations of products, services and prices that could be instituted so the actual figures in any specific concession bid may vary significantly, depending on their approach.

In addition to the specific inputs to the financial analysis there are several important macro economic assumptions that should be monitored:

- The concessionaire is assumed to be a financially strong company, with a long term management succession plan, that will provide quality management for the proposed facility and will retain an experienced manager to manage the overall project. Even if two concessions are awarded, ultimately, the success of the marina and the café will be interrelated.

- There will be no major physical catastrophe to affect the project or the Central Coast region and no prolonged major economic downturn that affects the tourism and local markets.
- Marketing of the facilities will be coordinated with DPR, the City of Morro Bay, local hotels and the Morro Bay Chamber of Commerce.

PROJECTED CASH FLOW-GENERAL APPROACH

Three Financing Scenarios

The café and marina are evaluated separately and then also as a combined concession. This will allow DPR to determine whether there should be two separate concessionaires or one overall concessionaire. All three of these analyses are done using three financing scenarios:

Scenario 1: Public Financing Vehicle. This scenario assumes that the concessionaire receives sufficient income to cover all expenses, pay the same percentage Rent to the State as is currently paid and provide a reasonable operating profit. All of the remaining revenues are collected by a public agency (DPR or City) and used to defray the costs of improvements. The public agency can use these funds to amortize a bond or they can simply earmark the funds and use them to pay off an "internal debt". A 3% interest is charged for the internal loan to reflect the costs of capital to the public sector. This is similar to an enterprise fund approach. The concessionaire makes no equity investment, which would require paying them a high ROI. In effect, the Net Profit is a management fee. (Presented in Tables 6-1, A-2 and A-3.)

Scenario 2: Public Wait & Save. In this scenario the public agency receives the same amount of funds. But instead of using this future income stream to support an internal loan, they simply save the funds (at 3% interest) and spend it as there are sufficient funds available for specific improvements. The funding from the concessionaire is the same as Scenario 1, but it supports more investment because it is saved and invested.

Scenario 3: Private Financing. In this scenario the concessionaire retains all of the revenues that would have been paid to public agencies in Scenario 1 or 2 and uses them to amortize the maximum debt they can support through private loans. The concessionaire is also expected to invest equity (30%) per a normal loan agreement. In this case, the concessionaire is allowed sufficient income to provide a reasonable ROI/IRR on their equity investment. (Presented in Tables A-3, A-4 and A-5.)

It is important to note that in all of the scenarios, all of the projected funding for improvements in this analysis is derived from the concession operations. **No other public funding is included anywhere in this financial analysis.** Supplemental public funding may be added later, as needed. The only differences in the scenarios is how the payments for improvements are collected, the particular financing vehicle used and who controls the funds.

SCENARIO 1 AND 2: PUBLIC FINANCING VEHICLE (without public investment)

Table 6-1 presents a 30 year Projected Cash flow for the combined café and marina concession under the Scenario 1 and 2 financing approach.

Table 6-1
PROJECTED CASH FLOW FOR THE MARINA & CAFÉ-Scenario 1: Public Finance Vehicle

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	total
Projected Gross Sales/Income		1,898,791	2,026,948	2,164,646	2,229,585	2,296,472	2,365,367	2,436,328	2,509,417	2,584,700	2,662,241	2,742,108	2,824,371	2,909,103	2,996,376	3,086,267	3,178,855	3,274,221	3,372,447	3,473,621	3,577,829	3,685,164	3,795,719	3,909,591	4,026,878	4,147,685	4,272,115	4,400,279	4,532,287	4,668,256	4,808,303	96,855,969
Less: Direct Expenses		498,355	538,224	581,282	598,720	616,682	635,182	654,237	673,865	694,081	714,903	736,350	758,441	781,194	804,630	828,768	853,631	879,240	905,618	932,786	960,770	989,593	1,019,281	1,049,859	1,081,355	1,113,795	1,147,209	1,181,626	1,217,074	1,253,587	1,291,194	
Gross Income		1,400,436	1,488,724	1,583,364	1,630,865	1,679,791	1,730,185	1,782,090	1,835,553	1,890,619	1,947,338	2,005,758	2,065,931	2,127,909	2,191,746	2,257,499	2,325,223	2,394,980	2,466,830	2,540,834	2,617,060	2,695,571	2,776,438	2,859,732	2,945,524	3,033,889	3,124,906	3,218,653	3,315,213	3,414,669	3,517,109	
Less: Operating Expenses		892,423	953,368	1,018,876	1,049,443	1,080,926	1,113,354	1,146,754	1,181,157	1,216,591	1,253,089	1,290,682	1,329,402	1,369,284	1,410,363	1,452,674	1,496,254	1,541,142	1,587,376	1,634,997	1,684,047	1,734,569	1,786,606	1,840,204	1,895,410	1,952,272	2,010,840	2,071,166	2,133,301	2,197,300	2,263,219	
Net Operating Income		508,013	535,356	564,488	581,422	598,865	616,831	635,336	654,396	674,028	694,249	715,076	736,529	758,624	781,383	804,825	828,969	853,838	879,454	905,837	933,012	961,003	989,833	1,019,528	1,050,114	1,081,617	1,114,066	1,147,488	1,181,912	1,217,370	1,253,891	25,277,352
Less: Pymts for Improvements																																
Current Rent to City		94,984	97,833	100,768	103,791	106,905	110,112	113,416	116,818	120,323	123,932	127,650	131,480	135,424	139,487	143,671	147,982	152,421	156,994	161,703	166,555	171,551	176,698	181,999	187,459	193,082	198,875	204,841	210,986	217,316	223,835	
MMA Pymt to City		71,238	73,375	75,576	77,843	80,179	82,584	85,062	87,614	90,242	92,949	95,738	98,610	101,568	104,615	107,754	110,986	114,316	117,745	121,278	124,916	128,663	132,523	136,499	140,594	144,812	149,156	153,631	158,240	162,987	167,877	
New Pymt for Improvm.		136,484	145,028	154,184	158,810	163,574	168,481	173,536	178,742	184,104	189,627	195,316	201,176	207,211	213,427	219,830	226,425	233,218	240,214	247,421	254,843	262,489	270,363	278,474	286,828	295,433	304,296	313,425	322,828	332,513	342,488	
Total		302,705	316,236	330,529	340,445	350,658	361,178	372,013	383,174	394,669	406,509	418,704	431,265	444,203	457,529	471,255	485,393	499,955	514,953	530,402	546,314	562,703	579,584	596,972	614,881	633,327	652,327	671,897	692,054	712,816	734,200	14,808,849
Less Debt Amortization																																
Less: Rent to State	6.8%	96,823	104,569	112,935	116,323	119,812	123,407	127,109	130,922	134,850	138,895	143,062	147,354	151,775	156,328	161,018	165,848	170,824	175,949	181,227	186,664	192,264	198,032	203,973	210,092	216,395	222,886	229,573	236,460	243,554	250,861	5,049,783
Net Profit Before Taxes		108,484	114,551	121,024	124,655	128,395	132,247	136,214	140,300	144,509	148,845	153,310	157,909	162,647	167,526	172,552	177,728	183,060	188,552	194,208	200,035	206,036	212,217	218,583	225,141	231,895	238,852	246,017	253,398	261,000	268,830	5,418,720
Net Profit %		5.7%	5.7%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	

Cash Flow Before Tax
Equity (Negative Cash Flow)
NCF (Net Cash Flow)
IRR

ASSUMPTIONS

Contract term (Yrs)	30	Yr 1 Gross sales	1,898,791
Beginning Yr	2015	Growth Rate	3%
Total Investment		Costs of Goods Sold	
Equity %		Operating Expenses:	*average of*
Equity Investment		Rent to State	*marina*
Loan Amount		Current Pymt to City	*and café*
Loan Term (Yrs)		Added Pymt to City	
Loan Interest rate			
Annual Loan Payment			

These projections are based on the assumption that all of the payments made to the public agency are used to defray the costs of improvements. Similar separate Scenario 1 projections for the café and marina are included in Appendix Tables A-1 and A-2. The results for the combined concession are discussed below. But all of these analyses are summarized later in this section. Note that the gray shaded lines in the Cash Flow are not used in the Scenario 1 analysis. However they are used in the Scenario 3 analysis and so they are included to provide a consistent format for the Cash Flow Projections across all Scenarios.

The projected cash flows in Table 6-1, and all of the subsequent proformas in this report, are considered to be prototypes of what could be expected under various assumptions and inputs. Individual bidders will have their own approaches and assumptions which may affect their projections and the actual outcomes. As can be seen in Table 6-1, the projection starts with the projected Operating Revenues and Expenses for the concession. Then non-operating expenses are deducted for improvement costs and Rent to the State. Each of the major components of the cash flow is described below in more detail.

Projected NOI

The Year 1 projected gross sales are the same as presented in Section 5, based on past operations and a review of industry standards. The basic assumptions are:

- All of the revenues and expenses are escalated at 3% per annum.
- The COGs for the café are 35% of sales and the operating expenses are 48% of sales.
- The operating expenses for the marina are 44% of sales.

Rent to the State

In Table 6-1 Rent to the State is shown as a separate expense. It was not included in the operating expense projections or in the Payments for Improvements. It is calculated as 6.8% of the revenues from the café only, which is the same percentage rent as the State has received in each of the past five years. This is considered the minimum rent and could be higher.

Payments for Improvements-Scenario 1 and 2: Public Finance

Table 6-1 shows various payments from the concessionaire to help pay for the improvement costs. These payments are:

- The rent 20% rent currently being paid to the City
- The 15% of revenues being allocated to the Major Maintenance Account (MMA) for major repairs
- A New Payment for Improvements. This payment is 6.2% of sales from the café and 10% of sales from the marina. The percent was simply chosen as the maximum amount the concessionaire could pay and still make a reasonable profit.

Net Profit to Concessionaire

The projected net profit from the café is 4.2%. The net profit from the marina is 11%. In dollar terms over 30 years this represents the following profit for the concessionaire(s):

Profit from cafe	$2,933,330
Profit from marina	$2,485,390
Total	$5,418,720

It is not possible to evaluate these figures in terms of a traditional Return on Investment (ROI) because the concessionaire is not required to make a front-end equity investment in the project in this scenario. So the profit is simply a payment for management time—in effect a management fee. Each of these figures as a percent of revenues is in line with the industry standards for comparable restaurants and marinas, as discussed in more detail at the end of this section. It should be noted that in most cases the operating expenses include some compensation to the "owner/manager" under the Salaries and Wages category. It is also true that since many concessionaires have more than one operation, they can spread their overhead costs over several operations.

Supportable Investment

Table 6-2 shows the level of capital expenditure on improvements that could be supported by the payments from the concessionaire presented in the cash flow projections under Scenario 1—assuming the payments are collected by a public agency and used to support either a public bond or internal financing. For comparison the table also includes a calculation of the supportable investments under Scenario 2, assuming that payments from the concessionaire are spent every 5 years, after they accumulate, beginning in year 5.

Table 6-2
SUPPORTABLE IMPROVEMENTS USING PAYMENTS FROM THE MARINA AND CAFÉ COMBINED OPERATIONS
Scenario #1 and Scenario #2

	Scenario 1: Public Financing		Scenario 2: Wait & Save
Years	Average Payment Available (1)	Supportable Improvements	Supportable Improvements
1-15	385,405	4,601,299	6,145,348
16-30	601,852	7,185,433	9,597,707
Total		**11,786,731**	**15,743,055**

(1) Using the average means that any deficit in the early years is offset by extra funds availabe in the later years of the period. Thus the need to include a cost of capital.

Since the payments from the concessionaire will be increasing over time, the analysis makes the following assumptions that could apply if any actual debt is issue or if the payments are simply earmarked and used to repay "internal loans" made by one or more public agency.

- In Scenario 1, two self- amortizing 15-year loans are assumed. This reflects the fact that the improvements can be undertaken over time. This is also done to make the analysis comparable to the private sector analysis where 30-year financing on a leasehold improvement is not available.
- The annual debt service amount used for each loan is the average of the concessionaire's annual payments for improvements during the applicable period.

- The interest rate paid in Scenario 1 is 3%, to represent the cost of capital for the State, whether any actual interest payments are made or not.
- The interest rate earned in Scenario 2 is 3%. The Supportable Improvements amount in Scenario 2 includes total payments from the concessionaire in each period plus 3% per annum accumulated interest. Within each period, funds can be expended as they match needs. Using any funds before the end of the period would reduce the accumulated interest. The figure shown assumes payments accumulate in 5 year increments and then are fully expended at the end of that period.

As shown in the table, using these assumptions indicates that the proposed payments from the concessionaire could amortize (support) $11.6 million in debt (capital cost), assuming a 3% interest rate (cost of capital) for the State. However in the Scenario 2 approach (Wait and Save), there would be approximately $15.5 million available for improvements starting after year 5.

SCENARIO 3: PRIVATE LOAN

All of the operating assumptions for Scenario 3 are the same as for Scenario 1 and 2. The only difference is that instead of making the Payments for Improvements to the public sector, it is assumed that all of the revenues from all of these sources (excluding Rent to the State) will be retained by the concessionaire and used to amortize a private loan to defray the cost of marina improvements. The primary differences in this approach are:

- The private loan will be at a higher interest rate—6%.
- The concessionaire will be required to invest substantial equity (capital injection) in the project in order to qualify for the loan. (Alternatively the concessionaire could use internal funds or could borrow against other assets.)
- The concessionaire will require a rate of return on this equity at risk significantly higher than the interest rate on debt. This is a major fixed expense which reduces the funds available for improvements. This return on equity (IRR) is a critical measure of feasibility for the concessionaire in Scenario 3.
- The concessionaire is unlikely to get a 30 year leasehold loan, so two sequential 15 year loans would be necessary. This results in faster payback and lower ROI/IRR.
- Since the income available for debt service increase each year, the analysis assumes the concessionaire obtains a loan based on the average amount available for debt service over the 15 year terms of the loans in order to smooth out the payments for the loans.
- Even if this approach is possible, the concessionaire may have difficulty getting a leasehold improvement loan on the marina without outside collateral.
- A business loan may be possible but would depend on the past performance of the marina.
- The amount of debt and equity the concessionaire can invest is constrained by the amount of NOI available to pay the related debt service and a reasonable rate of return (IRR) on the equity investment.

For all of these reasons the cost of capital (both debt and equity) for the project under Scenario 3 will be higher and conversely the amount of improvements that the same amount of concessionaire's payments can support will be lower.

The detailed cash flow projections for the Scenario 3 approach are shown in Appendix Tables A-3 through A-5.

SUMMARY OF FINANCIAL ANALYSIS

Following is a summary of the numerous analyses undertaken in this study. The results for the combined concession are most accurate. The results for the individual uses are somewhat more subjective because they require judgments about how to share the improvement costs, and consequently the ROI. (In fact, at this point it is not even known if there will be any improvement costs for the café.) In all cases, we have sought to maximize the amount of funds received by the public sector while still leaving sufficient net income for the concessionaire(s). There was no attempt to determine whether the payments required of the two concessions are reflective of the relative benefits they each might receive from the marina improvements. For example, the café was required to take on more debt in Scenario 3 simply because the revenues were there. Although, it could be argued that without these improvements both concessions would eventually wither away. In other words, the analysis calculates the maximum supportable investment from each use not the amount that is needed to make improvements for each use.

Table 6-3 presents a summary of one possible break down of the amount of investment supportable by the combined concession operations by time period.

Table 6-3
TOTAL SUPPORTABLE IMPROVEMENTS
FOR THREE APPROACHES TO FINANCING
BY TIME PERIOD
(Combined Concession)

Period	Scenario 1 Public Finance	Scenario 2 Wait & Save (1)	Scenario 3 Private Finance
Yr 1	4,601,299	6,145,348	4,142,857
Yr 16	7,185,433	9,597,707	5,000,000
Total	11,786,731	15,743,055	9,142,857

(1) In this scenario, funds for improvements are assumed to be saved and spent every 5 years beginning in year 5.

As expected Scenario 3 provides the lowest amount of supportable investment and Scenario 2 provides the most. Note that if Scenario 1 uses an internal loan from the State at zero interest, then the amount available for improvements is simply the total amount of payments for improvement over 30 years, since there is no discount for interest payments. These funds could be spent as received or the State could make the up front investment and receive an equal amount in future payments without interest. In this approach the total investment for Scenario 1 would be $15,021,500.

Table 6-4 provides a summary of the financial analysis over thirty years for the three scenarios broken out by type of use. Obviously, any change to the assumptions for either use will affect the returns of the other use, if the total supportable investment is kept at the same level.

Table 6-4
SUMMARY OF FINANCIAL ANALYSIS
FOR THREE APPROACHES TO FINANCING
BY TYPE OF USE

		Scenario 1 Public Finance	Scenario 2 Wait & Save	Scenario 3 Private Loan
A	**Gross Revenues-Café and Marina**	**96,855,969**		**96,855,969**
	Café	74,261,515	All the same	74,261,515
	Marina	22,594,455	as Scenario 1	22,594,455
B	**NOI** (before rent, debt service or pamt for improvemer	**25,277,352**		**25,277,352**
	Café	12,624,457		12,624,457
	Marina	12,652,895		12,652,895
B	**Improvements-Supportable by Operations (1)**	**11,786,731**	**15,743,055**	**9,142,857**
	Supported by Café	3,694,162	4,934,141	4,285,714
	Supported by Marina	8,092,570	10,808,914	4,857,143
C	**Concessionair's Improvement Payments (2)**	**14,808,849**		**9,884,160**
	Payments from Café	4,641,345		4,633,200
	Payments from Marina	10,167,505		5,250,960
D	**Concessionaire's Total Net Profit (3)**	**5,418,720**		**10,343,409**
	Net Profit from Café	2,933,330	All the same	2,941,474
	Net Profit from Marina	2,485,390	as Scenario 1	7,401,935
E	**Rent to State-Café + Marina**	**5,049,783**		**5,049,783**
	Rent to State from Café (6.8%) (4)	5,049,783		5,049,783
	Rent to State from Marina (0%)	-		-
F	**Total Rent & Improvm Pymts by Concessionaire**	**19,858,632**		**14,933,943**
	Café-Total	9,691,128		9,682,983
	Marina-Total	10,167,505		5,250,960
G	**Rent & Improvment Payments as % of Revenues**	**21%**		**15%**
	Café (5)	13%		13%
	Marina	45%		23%
H	**Equity Investment Required**	-	-	**2,742,857**
	Café	-	-	1,285,714
	Marina	-	-	1,457,143
I	**Equity Required as % of NOI**	-	-	**11%**
	Café	-	-	10%
	Marina	-	-	12%
J	**IRR**	-	-	**15%**
	Café	-	-	15%
	Marina	-	-	15%

(1) In Scenario 3 this includes the equity investment.
(2) Includes all payments, or debt amortization except Rent to the State. Improvement Payments are lower in Scenario 3 because more revenues are used to provide a return to the equity investment and pay higher interest on private loan rather than make payments for improvements.
(3) Note more profit (cash flow) is required for Scenario #3 becauses of the requirement for equity investment. Net profit in Scenario 1 is after payments for improvements. In Scenario 3 it is after debt amortization.
(4) Rent to Sate remains at the same percent as currently received in all scenarios.
(5) Includes 6.8% Rent to State.

As shown in the table, there is a wide range of supportable investment for the required improvements, depending on the approach to financing which is selected. However, in all financing scenarios there is the potential to receive a substantial contribution to the improvement costs from the concessionaire(s). Note that the total supportable investment can be spent on any required investment regardless of whether they are for the marina or the café.

As can be seen, the total of concessionaire improvement payments (C) plus profit (D) is the same for all scenarios. But more of this total is allocated to profit in Scenario 3—the private finance alternative. This can be seen more clearly in the following simplified summary of the Table.

Table 6-5
ALLOCATION OF TOTAL NOI FOR
THE MARINA AND CAFÉ COMBINED

	Scenario 1 Public Fin. Vehicle		Scenario 3 Private Loan	
	$	%	$	%
Rent to State	5,049,783	20%	5,049,783	20%
Improvement Payments	14,808,849	59%	9,884,160	39%
Profit	5,418,720	21%	10,343,409	41%
Total (NOI)	25,277,352	100%	25,277,352	100%

Only Scenario 3 shows an IRR because only this scenario requires equity investment. (The IRR uses the same NOI but instead of comparing this to revenues it compares it to investment on a time-discounted basis to calculate a compound annual ROI.) Because equity investment requires a higher rate of return, this will reduce the amount of the revenues that can be used for improvements. There is no one set IRR which is sufficient for all investors and which makes any project "feasible". Each investor will have his own target rate of return which makes a project acceptable to him. This target rate of return is often influenced by factors outside of the project such as the cost of capital, a desire to utilize excess capacity, availability of alternative investments, a desire to enter new markets and so forth.

The projected IRR target (15%) for the two uses are considered to be reasonable for the level of equity investment and for a project of this type. While there are some unknowns, it is assumed that a public agency will obtain all required permits and commitments for all necessary funding before soliciting a concessionaire. If this is done and considering that both concessions have a long track record of successful operation, these IRRs and the total profits are considered to be adequate to attract an investor/concessionaire.

It is also useful to compare the projected level of revenues and profit for the café and marina to the past performance and to industry standards. Keeping in mind that the total profit and the ROI/IRR are is better measures of performance than the ratio to sales. This is done in Table 6-6.

Table 6-6
PROJECTED REVENUES & PROFIT COMPARED TO PAST PERFORMANCE

		Projected	
	Current	**Scenario 1 & 2**	**Scenario 3**
Café			
Annual Revenues (1)	1,280,333	2,475,384	2,475,384
Annual Profit-dollars (1)	66,000	99,015	98,049
Annual Profit-% of revenues	5%	4%	4%
Industry Standard-% of revenues (2)	3%	3%	3%
Improvement Payments-avg	-	153,474	154,440
Improvement Pymts-% of revenues	0.0%	6.2%	6.2%
Marina			
Annual Revenues	353,125	753,148	753,148
Annual Profit-dollars (2012/13 avg)	50,000	82,846	82,846
Annual Profit-% of revenues	17%	11%	26% (4)
Industry Standard-% of revenues (3)	6%-16%	6%-16%	6%-16%
Improvement Payments-avg (5)	125,651	338,917	175,032
Improvement Pymts-% of revenues	36%	45%	23%
Café & Marina			
Annual Revenues	1,633,458	3,228,532	3,228,532
Annual Profit-dollars	116,000	181,862	180,895
Annual Profit-% of revenues	7.1%	6%	6%
Industry Standard-% of revenues	na	na	na
Improvement Payments-avg	**125,651**	**492,391**	**329,472**
Improvement Pymts-% of revenues	**8%**	**15%**	**10%**

(1) Projections are the averages over 30 years. Includes 3% excalation per annum.
(2) National Restaurant Association Operations Report.
Median, check over $25 per person, total sales $1-2 million.
(3) IMI Survey of Marinas; 6% for marinas under $800,000 in revenues; 16% for all marinas.
(4) With a relatively small revenue base, the marina needs a larger share of the revenues to provide an adequate IRR on its equity investment.
(5) Includes 20% currently paid as rent to City, which becomes an Improvement Payment.

As shown, the annual profit in dollars is projected to be well above the current levels for both the café and the marina. Furthermore, the profit as a percent of revenues is above the industry standard for both uses. As noted above, profit as a percent of revenues is difficult to define for marinas because of the wide variation in the amount of investment and equity reported. However, overall these figures indicate that the prototype financial projections for both uses should be attractive to some potential concessionaires.

Table 6-6 also shows the current and projected amount of Improvement Payments for the concessions. Currently the two concessions combined pay approximately $125,651 (8%) of revenues for rent and MMA. This amount can increase substantially due to several factors:

- The current City rent and MMA are pooled together and allocated to improvements.
- An additional payment of 6.2% for the café and 10% for the marina is added.
- Revenues are increased initially from price increases, operating efficiencies and marketing initiatives.

- Thereafter, all revenues are escalating at 3% per annum.

Due to the relatively small scale of the marina, the limited services offered, and the need to maximize the contribution to the cost of improvements, it may be that a smaller company with low overhead would be the best fit for the marina concession. Moreover, the number of slips and potential revenues are relatively small and may not be sufficient to attract the larger marina operators. There may be some financial advantage to having one concessionaire for both the marina and café because this reduces management costs and overhead. On the other hand, it may be more difficult to find one company that has the in-house expertise to run both a marina and a full service restaurant efficiently.

SENSITIVITY TESTING

As has been noted several times in this report, on any project still in the early stages of planning, all projections must be considered as estimates within a range. Thus it is useful to consider the sensitivity of the key assumptions and inputs. For this purpose, the analysis was rerun assuming variations in certain key inputs which would have an impact of the financial results. The results of these sensitivity tests are summarized below in Table 6-7.

Table 6-7
EFFECTS OF SELECTED VARIATIONS IN ASSUMPTIONS ON THE PROJECTIONS

Change in Assumption	Change in Improvements Supportable by Concessionaire Payments Scenario 3: Combined Uses (1)	
increase initial slip rate from $8.50 to $9.00	142,857	
delay increase to $8.50 for 2 years	(571,400)	
2% decrease marina operating expense ratio to 42%	142,857	
2% increase marina operating expense ratio to 46%	(142,857)	
5% decrease in projected NOI (marina & café)	(286,035)	
drop New Paymt for Imprv. for café from 6.2% to 3%	(1,773,000)	(2)
drop New Paymt for Imprv. for marina from 10% to 5%	(899,000)	(2)

(1) All changes assume concessionaire profit (IRR) remains at 15%.
But in fact some of the negative effects could be shifted to the concessionaire profit.
(2) These negative impacts occur in Scenario 1, since there are no Improvement Pymts in Scenario 3.

Scenario 3 is used as a test case, but similar outcomes would result from all of the scenarios. These results indicate that the financial projection model is very stable. That is, even if there are variations in the key assumptions, the overall results of the financial analysis do not change significantly. The basic conclusion is that modest changes in the operating projections would not have a significant effect on the supportable investments. This so because the primary drivers of supportable investment are the existing base of revenues, the existing rent and MMA payments, the proposed new improvement payments (Scenarios 1 and 2 only) and the financing terms. However, the table also shows that reducing the proposed new improvement payments (Scenarios 1 and 2 only) by half would have an impact on the total supportable investments. In this case, for the café this change would reduce the combined supportable investment by 15%. For the marina this change would reduce combined supportable investment by 8%.

APPENDIX A
SELECTED TABLES

Proforma Cash Flows

Public Finance Vehicle: Scenario 1 & 2

Table A-1	Café
Table A-2	Marina
(Table 6-1)	Café & Marina

Private Finance Vehicle: Private Loan

Table A-3	Café
Table A-4	Marina
Table A-5	Café & Marina

Table A-1
PROJECTED CASH FLOW FOR THE CAFÉ-Scenario 1: Public Finance Vehicle

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	Total
Projected Gross Sales/Income		1,423,872	1,537,782	1,660,804	1,710,628	1,761,947	1,814,806	1,869,250	1,925,327	1,983,087	2,042,580	2,103,857	2,166,973	2,231,982	2,298,942	2,367,910	2,438,947	2,512,116	2,587,479	2,665,103	2,745,056	2,827,408	2,912,230	2,999,597	3,089,585	3,182,273	3,277,741	3,376,073	3,477,355	3,581,676	3,689,126	74,261,515
Less: Direct Expenses	35%	498,355	538,224	581,282	598,720	616,682	635,182	654,237	673,865	694,081	714,903	736,350	758,441	781,194	804,630	828,768	853,631	879,240	905,618	932,786	960,770	989,593	1,019,281	1,049,859	1,081,355	1,113,795	1,147,209	1,181,626	1,217,074	1,253,587	1,291,194	
Gross Income		925,517	999,558	1,079,523	1,111,908	1,145,266	1,179,624	1,215,012	1,251,463	1,289,007	1,327,677	1,367,507	1,408,532	1,450,788	1,494,312	1,539,141	1,585,316	1,632,875	1,681,861	1,732,317	1,784,287	1,837,815	1,892,950	1,949,738	2,008,230	2,068,477	2,130,532	2,194,448	2,260,281	2,328,089	2,397,932	
Less: Operating Expenses	48%	683,459	738,135	797,186	821,102	845,735	871,107	897,240	924,157	951,882	980,438	1,009,851	1,040,147	1,071,351	1,103,492	1,136,597	1,170,695	1,205,815	1,241,990	1,279,250	1,317,627	1,357,156	1,397,871	1,439,807	1,483,001	1,527,491	1,573,316	1,620,515	1,669,131	1,719,205	1,770,781	
Net Operating Income		242,058	261,423	282,337	290,807	299,531	308,517	317,772	327,306	337,125	347,239	357,656	368,385	379,437	390,820	402,545	414,621	427,060	439,871	453,068	466,660	480,659	495,079	509,932	525,229	540,986	557,216	573,932	591,150	608,885	627,151	12,624,457
Less: Pymts for Improvements																																
Current Rent to City	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
MMA Pymt to City	0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
New Pymt for Improvm	6.2%	88,280	95,342	102,970	106,059	109,241	112,518	115,893	119,370	122,951	126,640	130,439	134,352	138,383	142,534	146,810	151,215	155,751	160,424	165,236	170,194	175,299	180,558	185,975	191,554	197,301	203,220	209,317	215,596	222,064	228,726	
Total	6.2%	88,280	95,342	102,970	106,059	109,241	112,518	115,893	119,370	122,951	126,640	130,439	134,352	138,383	142,534	146,810	151,215	155,751	160,424	165,236	170,194	175,299	180,558	185,975	191,554	197,301	203,220	209,317	215,596	222,064	228,726	4,604,214
Less: Debt Amortization																																
Less: Rent to State	6.8%	96,823	104,569	112,935	116,323	119,812	123,407	127,109	130,922	134,850	138,895	143,062	147,354	151,775	156,328	161,018	165,848	170,824	175,949	181,227	186,664	192,264	198,032	203,973	210,092	216,395	222,886	229,573	236,460	243,554	250,861	5,049,783
Net Profit Before Taxes		56,955	61,511	66,432	68,425	70,478	72,592	74,770	77,013	79,323	81,703	84,154	86,679	89,279	91,958	94,716	97,558	100,485	103,499	106,604	109,802	113,096	116,489	119,984	123,583	127,291	131,110	135,043	139,094	143,267	147,565	2,970,461
Net Profit %		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	

Cash Flow Before Tax
Equity (Negative Cash Flow)
NCF (Net Cash Flow)
IRR

ASSUMPTIONS

Contract term (Yrs)	30	Yr 1 Gross sales	1,423,872
Beginning Yr	2015	Growth rate	3%
Total Investment		Costs of Goods Sold	35%
Equity %		Operating Expenses before I	48%
Investment Equity		Rent to State	6.8%
Loan Amount			
Loan Term (Yrs)			
Loan Interest rate			
Annual Loan Payment			

Table A-2
PROJECTED CASH FLOW FOR THE MARINA-Scenario 1: Public Finance Vehicle

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	36	27	28	29	30	Total
Projected Gross Sales/Income		474,919	489,166	503,841	518,956	534,525	550,561	567,078	584,090	601,613	619,661	638,251	657,399	677,121	697,434	718,357	739,908	762,105	784,968	808,517	832,773	857,756	883,489	909,993	937,293	965,412	994,374	1,024,206	1,054,932	1,086,580	1,119,177	22,594,455
Less: Direct Expenses	0%																															
Gross Income		474,919	489,166	503,841	518,956	534,525	550,561	567,078	584,090	601,613	619,661	638,251	657,399	677,121	697,434	718,357	739,908	762,105	784,968	808,517	832,773	857,756	883,489	909,993	937,293	965,412	994,374	1,024,206	1,054,932	1,086,580	1,119,177	
Less: Operating Expenses	44%	208,964	215,233	221,690	228,341	235,191	242,247	249,514	257,000	264,710	272,651	280,830	289,255	297,933	306,871	316,077	325,559	335,326	345,386	355,748	366,420	377,413	388,735	400,397	412,409	424,781	437,525	450,650	464,170	478,095	492,438	
Net Operating Income		265,954	273,933	282,151	290,616	299,334	308,314	317,564	327,090	336,903	347,010	357,421	368,143	379,187	390,563	402,280	414,348	426,779	439,582	452,770	466,353	480,343	494,754	509,596	524,884	540,631	556,850	573,555	590,762	608,485	626,739	12,652,895
Less: Pymts for Improvements																																
Current Rent to City	20%	94,984	97,833	100,768	103,791	106,905	110,112	113,416	116,818	120,323	123,932	127,650	131,480	135,424	139,487	143,671	147,982	152,421	156,994	161,703	166,555	171,551	176,698	181,999	187,459	193,082	198,875	204,841	210,986	217,316	223,835	
MMA Pymt to City	15%	71,238	73,375	75,576	77,843	80,179	82,584	85,062	87,614	90,242	92,949	95,738	98,610	101,568	104,615	107,754	110,986	114,316	117,745	121,278	124,916	128,663	132,523	136,499	140,594	144,812	149,156	153,631	158,240	162,987	167,877	
New Pymt for Improvm	10%	47,492	48,917	50,384	51,896	53,453	55,056	56,708	58,409	60,161	61,966	63,825	65,740	67,712	69,743	71,836	73,991	76,211	78,497	80,852	83,277	85,776	88,349	90,999	93,729	96,541	99,437	102,421	105,493	108,658	111,918	
Total	45%	213,713	220,125	226,729	233,530	240,536	247,752	255,185	262,841	270,726	278,848	287,213	295,829	304,704	313,845	323,261	332,959	342,947	353,236	363,833	374,748	385,990	397,570	409,497	421,782	434,435	447,468	460,892	474,719	488,961	503,630	10,167,505
Less: Debt Amortization																																
Less: Rent to State	0%																															
Net Profit Before Taxes		52,241	53,808	55,423	57,085	58,798	60,562	62,379	64,250	66,177	68,163	70,208	72,314	74,483	76,718	79,019	81,390	83,832	86,347	88,937	91,605	94,353	97,184	100,099	103,102	106,195	109,381	112,663	116,042	119,524	123,109	2,485,390
Net Profit %		11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	
Cash Flow Before Tax																																
Equity (Negative Cash Flow)																																
NCF (Net Cash Flow)																																
IRR																																

ASSUMPTIONS

Contract term (Yrs)	30	Yr 1 Gross sales	474,919
Beginning Yr	2015	Growth Rate	3%
Total Investment		Costs of Goods Sold	0%
Equity %		Operating Expenses:	44%
Equity Investment		Rent to State	0%
Loan Amount			
Loan Term (Yrs)			
Loan Interest rate			
Annual Loan Payment			

Table A-3
PROJECTED CASH FLOW FOR THE CAFÉ-Scenario 3: Private Finance

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	Total
Projected Gross Sales/Income		1,423,872	1,537,782	1,660,804	1,710,628	1,761,947	1,814,806	1,869,250	1,925,327	1,983,087	2,042,580	2,103,857	2,166,973	2,231,982	2,298,942	2,367,910	2,438,947	2,512,116	2,587,479	2,665,103	2,745,056	2,827,408	2,912,230	2,999,597	3,089,585	3,182,273	3,277,741	3,376,073	3,477,355	3,581,676	3,689,126	74,261,515
Less: Direct Expenses	35%	498,355	538,224	581,282	598,720	616,682	635,182	654,237	673,865	694,081	714,903	736,350	758,441	781,194	804,630	828,768	853,631	879,240	905,618	932,786	960,770	989,593	1,019,281	1,049,859	1,081,355	1,113,795	1,147,209	1,181,626	1,217,074	1,253,587	1,291,194	
Gross Income		925,517	999,558	1,079,523	1,111,908	1,145,266	1,179,624	1,215,012	1,251,463	1,289,007	1,327,677	1,367,507	1,408,532	1,450,788	1,494,312	1,539,141	1,585,316	1,632,875	1,681,861	1,732,317	1,784,287	1,837,815	1,892,950	1,949,738	2,008,230	2,068,477	2,130,532	2,194,448	2,260,281	2,328,089	2,397,932	
Less: Operating Expenses	48%	683,459	738,135	797,186	821,102	845,735	871,107	897,240	924,157	951,882	980,438	1,009,851	1,040,147	1,071,351	1,103,492	1,136,597	1,170,695	1,205,815	1,241,990	1,279,250	1,317,627	1,357,156	1,397,871	1,439,807	1,483,001	1,527,491	1,573,316	1,620,515	1,669,131	1,719,205	1,770,781	
Net Operating Income		242,058	261,423	282,337	290,807	299,531	308,517	317,772	327,306	337,125	347,239	357,656	368,385	379,437	390,820	402,545	414,621	427,060	439,871	453,068	466,660	480,659	495,079	509,932	525,229	540,986	557,216	573,932	591,150	608,885	627,151	12,624,457
Retain: Pymts for Improvements																																
Former Rent to City																																
MMA Pymt to City																																
New Pymt for Improvm.																																
Total																																
Less: Debt Amortization		102,960	102,960	102,960	102,960	102,960	102,960	102,960	102,960	102,960	102,960	102,960	102,960	102,960	102,960	102,960	205,920	205,920	205,920	205,920	205,920	205,920	205,920	205,920	205,920	205,920	205,920	205,920	205,920	205,920	205,920	4,633,200
Less: Rent to State	6.8%	96,823	104,569	112,935	116,323	119,812	123,407	127,109	130,922	134,850	138,895	143,062	147,354	151,775	156,328	161,018	165,848	170,824	175,949	181,227	186,664	192,264	198,032	203,973	210,092	216,395	222,886	229,573	236,460	243,554	250,861	5,049,783
Net Profit Before Taxes		42,275	53,894	66,442	71,524	76,759	82,150	87,703	93,423	99,315	105,383	111,633	118,071	124,702	131,532	138,567	42,853	50,316	58,003	65,921	74,076	82,476	91,128	100,039	109,218	118,672	128,410	138,439	148,770	159,411	170,371	2,941,474
Net Profit %		3.0%	3.5%	4.0%	4.2%	4.4%	4.5%	4.7%	4.9%	5.0%	5.2%	5.3%	5.4%	5.6%	5.7%	5.9%	1.8%	2.0%	2.2%	2.5%	2.7%	2.9%	3.1%	3.3%	3.5%	3.7%	3.9%	4.1%	4.3%	4.5%	4.6%	4%
Cash Flow Before Tax																																
Equity (Negative Cash Flow)	(428,571)																(857,143)															(1,285,714)
NCF (Net Cash Flow)	(428,571)	42,275	53,894	66,442	71,524	76,759	82,150	87,703	93,423	99,315	105,383	111,633	118,071	124,702	131,532	138,567	(814,290)	50,316	58,003	65,921	74,076	82,476	91,128	100,039	109,218	118,672	128,410	138,439	148,770	159,411	170,371	1,655,760
IRR-30 years	**15%**																															

ASSUMPTIONS

Contract term (Yrs)		Yr 1 Gross Sales	
Beginning Yr		Growth rate	3%
Total Investment	4,285,714	Costs of Goods Sold	35%
Equity %	30%	Operating Expenses before I	48%
Investment Equity	1,285,714	Rent to State	6.8%
Loan Amount	3,000,000		
Loan Term (Yrs)	15 years		
Loan Interest Rate	6%		
Annual Loan Payment	2 loans		

Table A-4
PROJECTED CASH FLOW FOR THE MARINA-Scenario 3: Private Finance

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	36	27	28	29	30	Total
Projected Gross Sales/Income		474,919	489,166	503,841	518,956	534,525	550,561	567,078	584,090	601,613	619,661	638,251	657,399	677,121	697,434	718,357	739,908	762,105	784,968	808,517	832,773	857,756	883,489	909,993	937,293	965,412	994,374	1,024,206	1,054,932	1,086,580	1,119,177	22,594,455
Less: Direct Expenses	0%																															
Gross Income		474,919	489,166	503,841	518,956	534,525	550,561	567,078	584,090	601,613	619,661	638,251	657,399	677,121	697,434	718,357	739,908	762,105	784,968	808,517	832,773	857,756	883,489	909,993	937,293	965,412	994,374	1,024,206	1,054,932	1,086,580	1,119,177	
Less: Operating Expenses	44%	208,964	215,233	221,690	228,341	235,191	242,247	249,514	257,000	264,710	272,651	280,830	289,255	297,933	306,871	316,077	325,559	335,326	345,386	355,748	366,420	377,413	388,735	400,397	412,409	424,781	437,525	450,650	464,170	478,095	492,438	
Net Operating Income		265,954	273,933	282,151	290,616	299,334	308,314	317,564	327,090	336,903	347,010	357,421	368,143	379,187	390,563	402,280	414,348	426,779	439,582	452,770	466,353	480,343	494,754	509,596	524,884	540,631	556,850	573,555	590,762	608,485	626,739	12,652,895
Retain: Pymts for Improvements																																
Former Rent to City																																
MMA Pymt to City																																
New Pymt for Improvm.																																
Total																																
Less: Debt Amortization		195,624	195,624	195,624	195,624	195,624	195,624	195,624	195,624	195,624	195,624	195,624	195,624	195,624	195,624	195,624	154,440	154,440	154,440	154,440	154,440	154,440	154,440	154,440	154,440	154,440	154,440	154,440	154,440	154,440	154,440	5,250,960
Less: Rent to State	0%																															
Net Profit Before Taxes		70,330	78,309	86,527	94,992	103,710	112,690	121,940	131,466	141,279	151,386	161,797	172,519	183,563	194,939	206,656	259,908	272,339	285,142	298,330	311,913	325,903	340,314	355,156	370,444	386,191	402,410	419,115	436,322	454,045	472,299	7,401,935
Net Profit %		15%	16%	17%	18%	19%	20%	22%	23%	23%	24%	25%	26%	27%	28%	29%	35%	36%	36%	37%	37%	38%	39%	39%	40%	40%	40%	41%	41%	42%	42%	33%
Cash Flow Before Tax																																
Equity (Negative Cash Flow	(814,286)																(642,857)															(1,457,143)
NCF (Net Cash Flow)	(814,286)	70,330	78,309	86,527	94,992	103,710	112,690	121,940	131,466	141,279	151,386	161,797	172,519	183,563	194,939	206,656	(382,949)	272,339	285,142	298,330	311,913	325,903	340,314	355,156	370,444	386,191	402,410	419,115	436,322	454,045	472,299	5,944,792
IRR-30 years	**15%**																															26%

ASSUMPTIONS

Contract term (Yrs)	30	Yr 1 Gross Sales	474,919
Beginning Yr	2015	Growth Rate	3%
Total Investment	4,857,143	Costs of Goods Sold	0%
Equity %	30%	Operating Expenses:	44%
Equity Investment	1,457,143	Rent to State	0%
Loan Amount	3,400,000	Current Pymt to City	
Loan Term (Yrs)	15 years	Added Pymt to City	
Loan Interest rate	6%		
Annual Loan Payment	2 loans		

Table A-5
PROJECTED CASH FLOW FOR THE MARINA & CAFÉ-Scenario 3: Private Finance

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	total
Projected Gross Sales/Income		1,898,791	2,026,948	2,164,646	2,229,585	2,296,472	2,365,367	2,436,328	2,509,417	2,584,700	2,662,241	2,742,108	2,824,371	2,909,103	2,996,376	3,086,267	3,178,855	3,274,221	3,372,447	3,473,621	3,577,829	3,685,164	3,795,719	3,909,591	4,026,878	4,147,685	4,272,115	4,400,279	4,532,287	4,668,256	4,808,303	96,855,969
Less: Direct Expenses		498,355	538,224	581,282	598,720	616,682	635,182	654,237	673,865	694,081	714,903	736,350	758,441	781,194	804,630	828,768	853,631	879,240	905,618	932,786	960,770	989,593	1,019,281	1,049,859	1,081,355	1,113,795	1,147,209	1,181,626	1,217,074	1,253,587	1,291,194	
Gross Income		1,400,436	1,488,724	1,583,364	1,630,865	1,679,791	1,730,185	1,782,090	1,835,553	1,890,619	1,947,338	2,005,758	2,065,931	2,127,909	2,191,746	2,257,499	2,325,223	2,394,980	2,466,830	2,540,834	2,617,060	2,695,571	2,776,438	2,859,732	2,945,524	3,033,889	3,124,906	3,218,653	3,315,213	3,414,669	3,517,109	
Less: Operating Expenses		892,423	953,368	1,018,876	1,049,443	1,080,926	1,113,354	1,146,754	1,181,157	1,216,591	1,253,089	1,290,682	1,329,402	1,369,284	1,410,363	1,452,674	1,496,254	1,541,142	1,587,376	1,634,997	1,684,047	1,734,569	1,786,606	1,840,204	1,895,410	1,952,272	2,010,840	2,071,166	2,133,301	2,197,300	2,263,219	
Net Operating Income		508,013	535,356	564,488	581,422	598,865	616,831	635,336	654,396	674,028	694,249	715,076	736,529	758,624	781,383	804,825	828,969	853,838	879,454	905,837	933,012	961,003	989,833	1,019,528	1,050,114	1,081,617	1,114,066	1,147,488	1,181,912	1,217,370	1,253,891	25,277,352
Retain: Pymts for Improvements																																
Former Rent to City																																
MMA Pymt to City																																
New Pymt for Improvm.																																
Total																																
Less Debt Amortization		298,584	298,584	298,584	298,584	298,584	298,584	298,584	298,584	298,584	298,584	298,584	298,584	298,584	298,584	298,584	360,360	360,360	360,360	360,360	360,360	360,360	360,360	360,360	360,360	360,360	360,360	360,360	360,360	360,360	360,360	9,884,160
Less: Rent to State		96,823	104,569	112,935	116,323	119,812	123,407	127,109	130,922	134,850	138,895	143,062	147,354	151,775	156,328	161,018	165,848	170,824	175,949	181,227	186,664	192,264	198,032	203,973	210,092	216,395	222,886	229,573	236,460	243,554	250,861	5,049,783
Net Profit Before Taxes		112,605	132,203	152,969	166,516	180,469	194,840	209,643	224,890	240,594	256,769	273,430	290,590	308,266	326,471	345,223	302,761	322,655	343,145	364,250	385,989	408,379	431,441	455,195	479,662	504,863	530,819	557,555	585,092	613,456	642,670	10,343,409
Net Profit %		5.9%	6.5%	7.1%	7.5%	7.9%	8.2%	8.6%	9.0%	9.3%	9.6%	10.0%	10.3%	10.6%	10.9%	11.2%	9.5%	9.9%	10.2%	10.5%	10.8%	11.1%	11.4%	11.6%	11.9%	12.2%	12.4%	12.7%	12.9%	13.1%	13.4%	11%
Cash Flow Before Tax																																
Equity (Negative Cash Flow)	(1,242,857)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,500,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,742,857)
NCF (Net Cash Flow)	(1,242,857)	112,605	132,203	152,969	166,516	180,469	194,840	209,643	224,890	240,594	256,769	273,430	290,590	308,266	326,471	345,223	(1,197,239)	322,655	343,145	364,250	385,989	408,379	431,441	455,195	479,662	504,863	530,819	557,555	585,092	613,456	642,670	7,600,552
IRR-30 years	**15%**																															

ASSUMPTIONS

Contract term (Yrs)	30	Yr 1 Gross Sales	1,898,791
Beginning Yr	2015	Growth Rate	3%
Total Investment	9,142,857	Costs of Goods Sold	
Equity %	30%	Operating Expenses:	*average of*
Equity Investment	2,742,857	Rent to State	*marina*
Loan Amount	6,400,000	Current Pymt to City	*and café*
Loan Term (Yrs)	15 years	Added Pymt to City	
Loan Interest rate	6%		
Annual Loan Payment	2 loans		