



CITY OF SAUSALITO

SYH Bulkhead Replacement - Financing Analysis

6c
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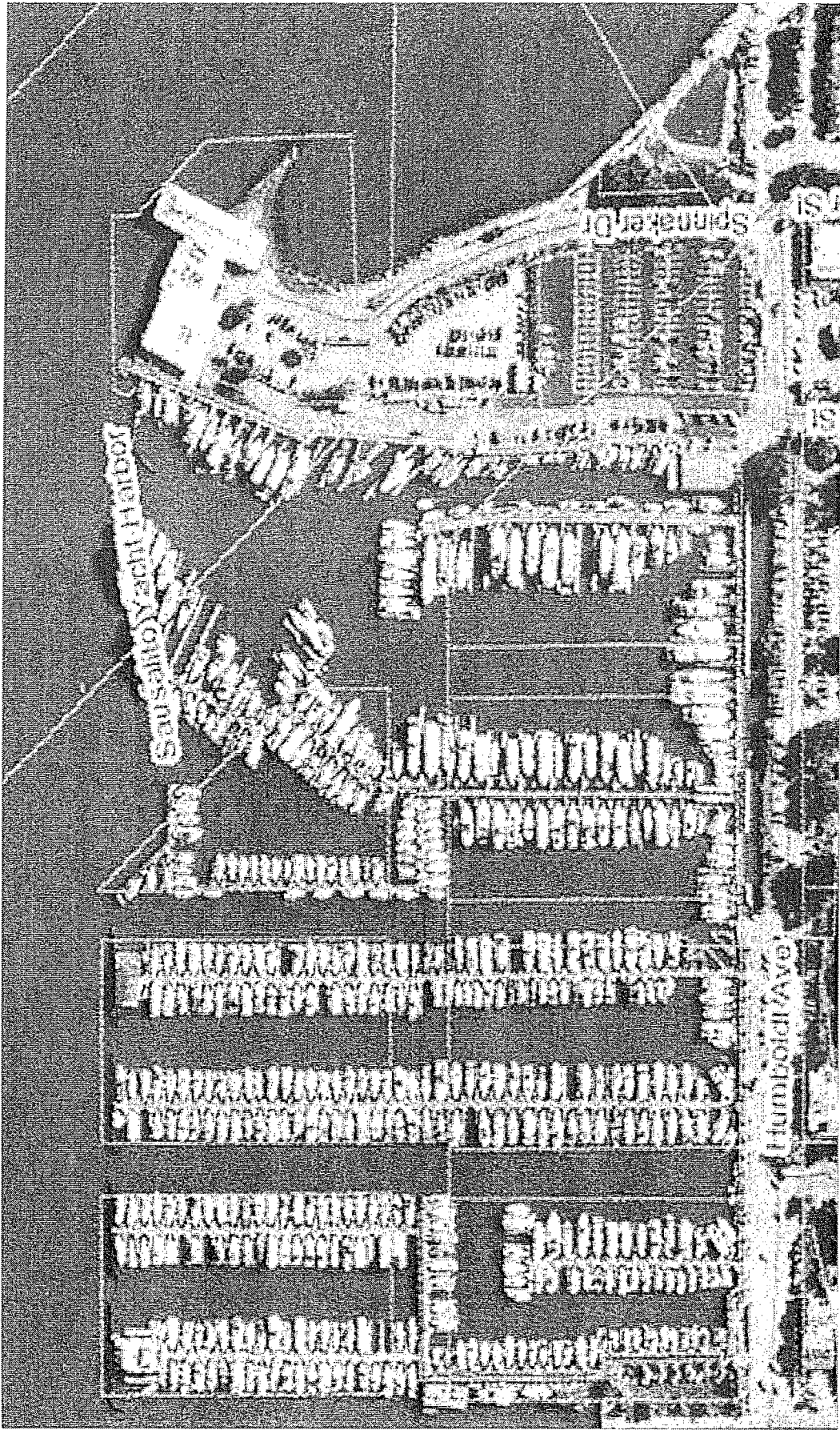
Presentation Outline

- The Choices
- A little History
- The Public Record
- A Lot of Analysis
- The Financing Plan



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The Bulkhead

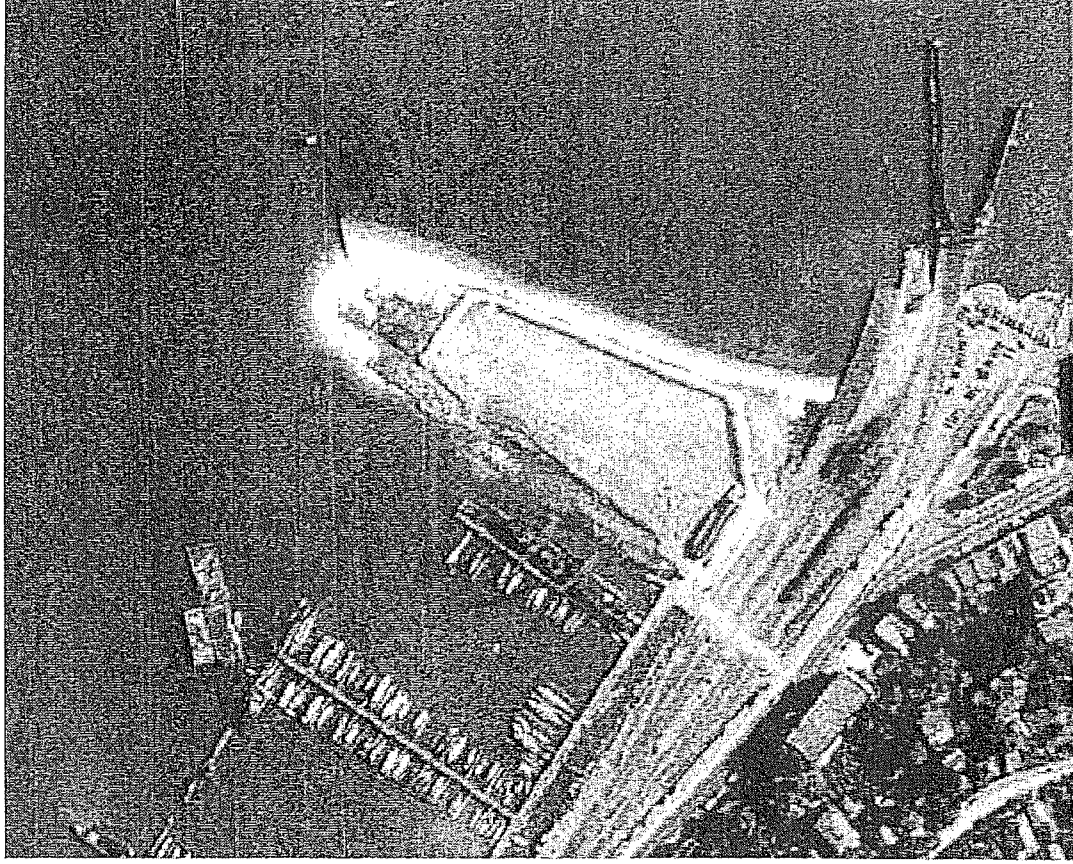


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What is a Bulkhead?

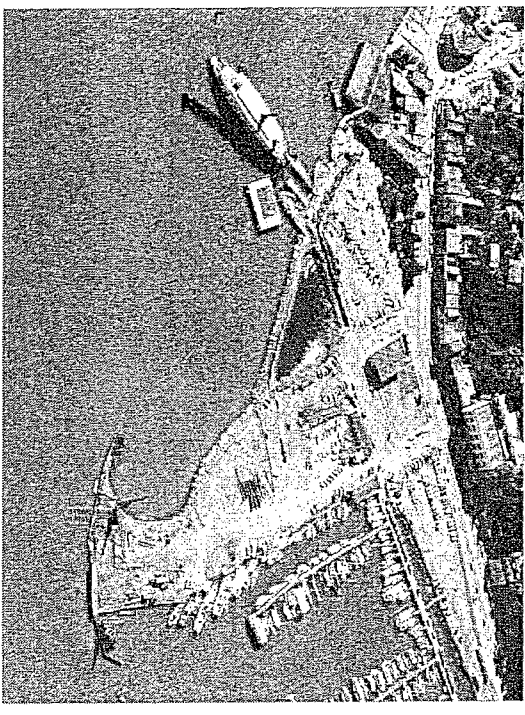
- A bulkhead is a partially-submerged retaining wall. Bulkheads are typically constructed along shorelines with the purpose of controlling erosion. Construction materials commonly used include wood pilings, sheet piles, large boulders stacked to form a wall ("rip-rap"), or concrete.





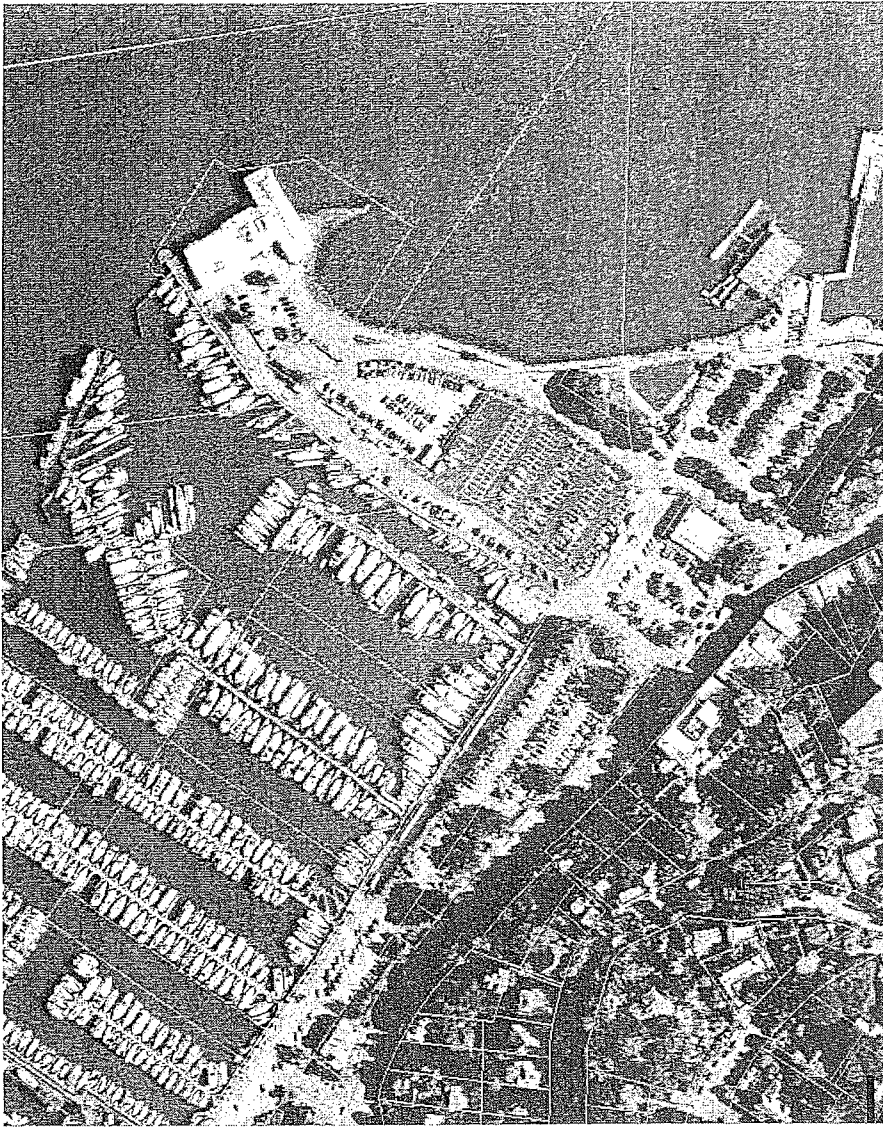
What is the History of the Bulkhead?

- Initially constructed late 30's early 40's
- The existing Bay Street Bulkhead was last improved in early 1960 with the driving of creosote-preserved timber piles and appurtenances





Why is the Bulkhead Important?

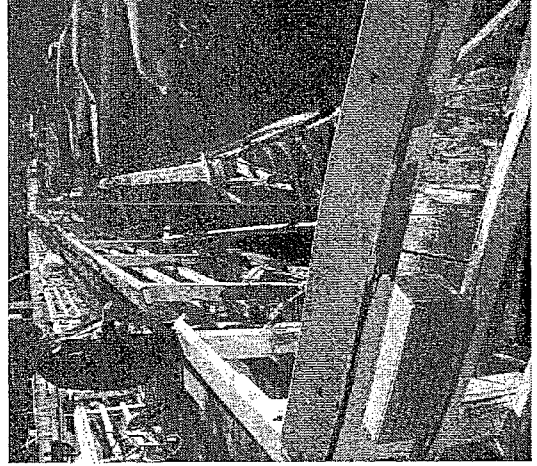
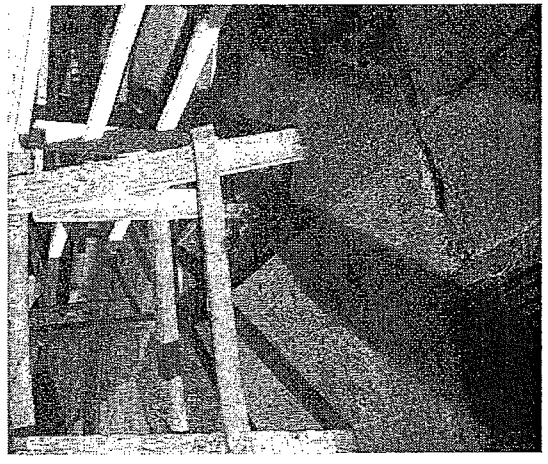
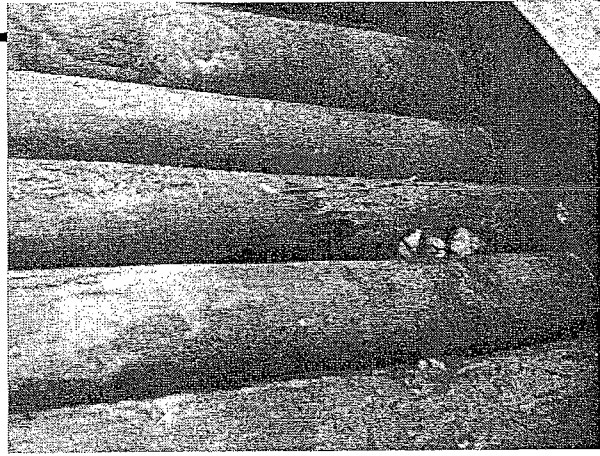
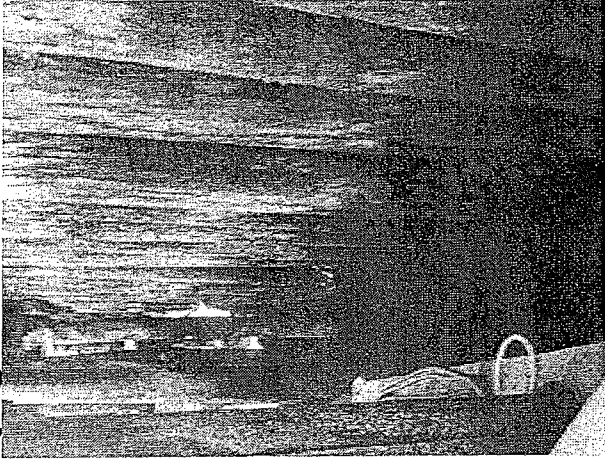


- The existing Bay Street Bulkhead is intended to create a physical barrier between Richardson's Bay waters and artificial earth fill that is used to support the existing infrastructure in the Bay Street extension. The Bay Street Bulkhead protects a portion of the Sausalito Yacht Harbor Marina, its shipyard, and parking lot. The Bay Street Bulkhead also serves the Spinnaker Restaurant and its parking lots, Sausalito Yacht Club and the city's park and parking lots.
- There are revenue generating leases to the City:
 - Sausalito Yacht Harbor (~\$130 thousand per year),
 - Spinnaker Restaurant (~\$340 thousand per year), and the
 - Sausalito Yacht Club (~\$80 thousand per year).
- On top of lease revenues, there are substantial Sales Tax Revenues to the City from the Spinnaker Restaurant and the Sausalito Yacht Club.



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Bulkhead Status Report



- April, 2010 Inspection of Bulkhead
- June 29, 2010 Report to City Council on Bulkhead Status
- ***Bulkhead is in urgent need of replacement***
- Cost of replacement is approximately \$5 million

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What We Know

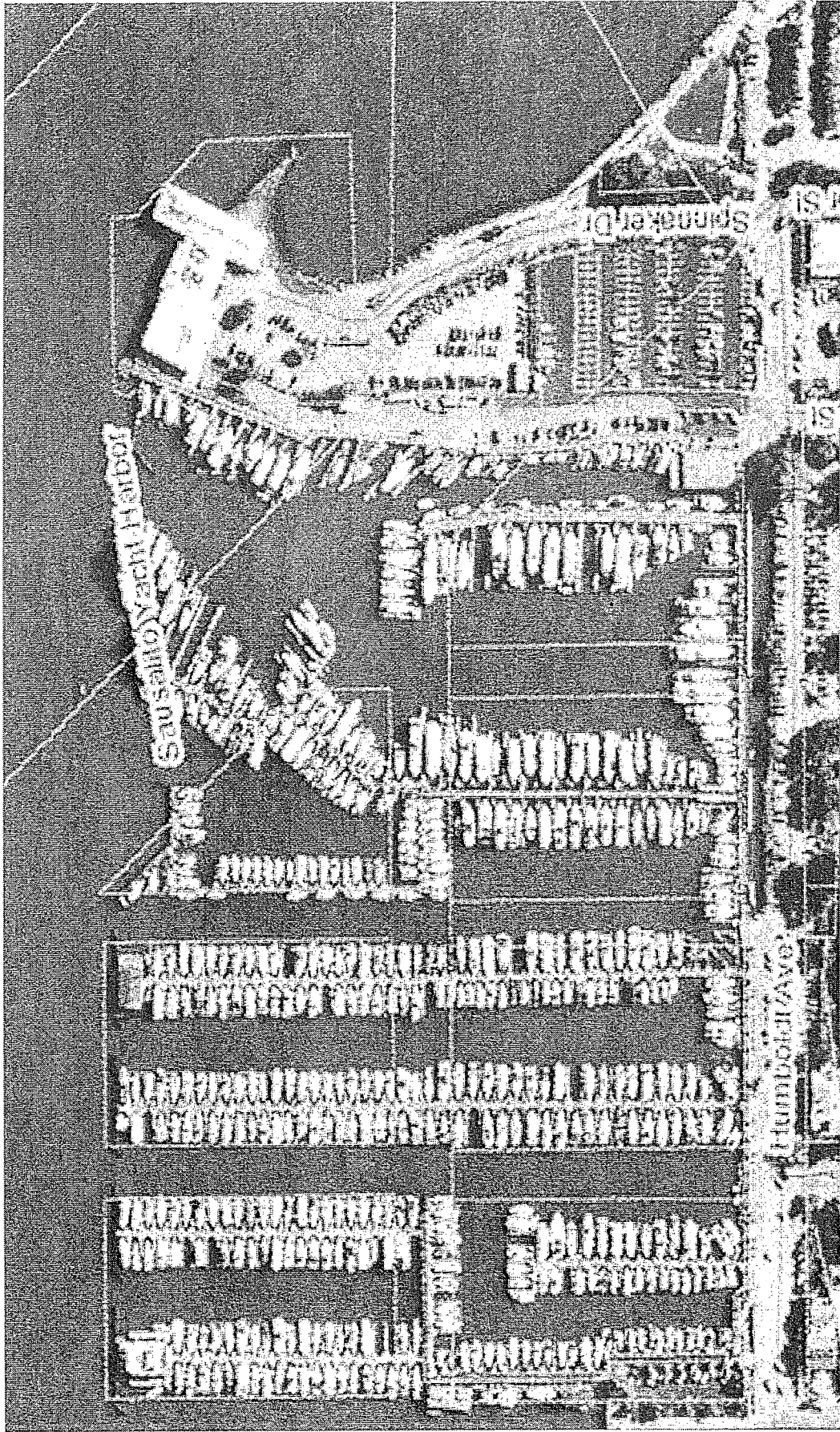
- The site
 - Undisputed Ownership/Public ROW
 - Disputed Ownership/Public ROW
- Governing documents
 - Settlement Agreement
 - SYH Lease Agreement
- Responsibilities and rights

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SYH Marina – 600 full slips

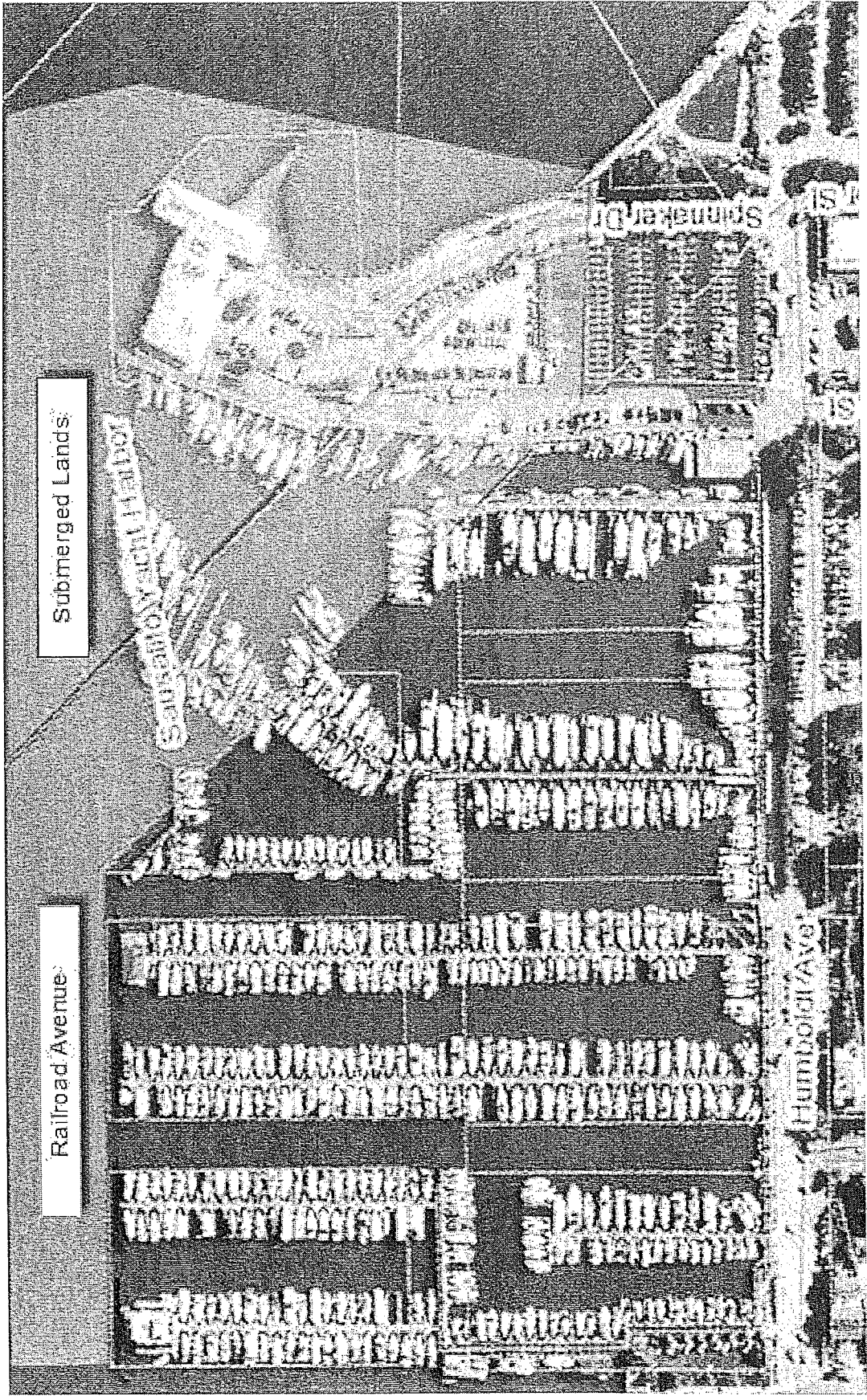


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Undisputed City Ownership/Public ROW - 71 slips

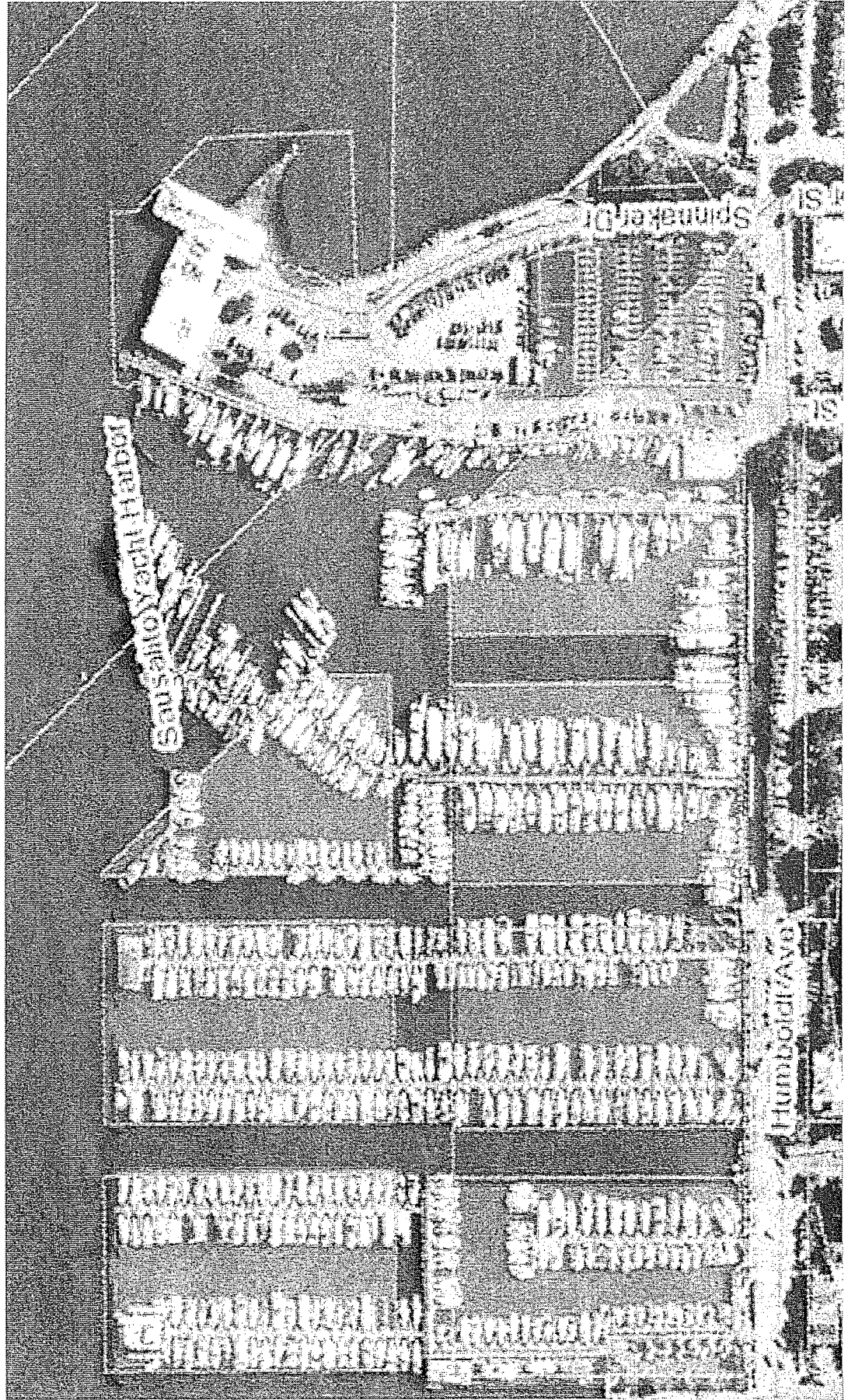


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Undisputed SYH Ownership – 419 full slips

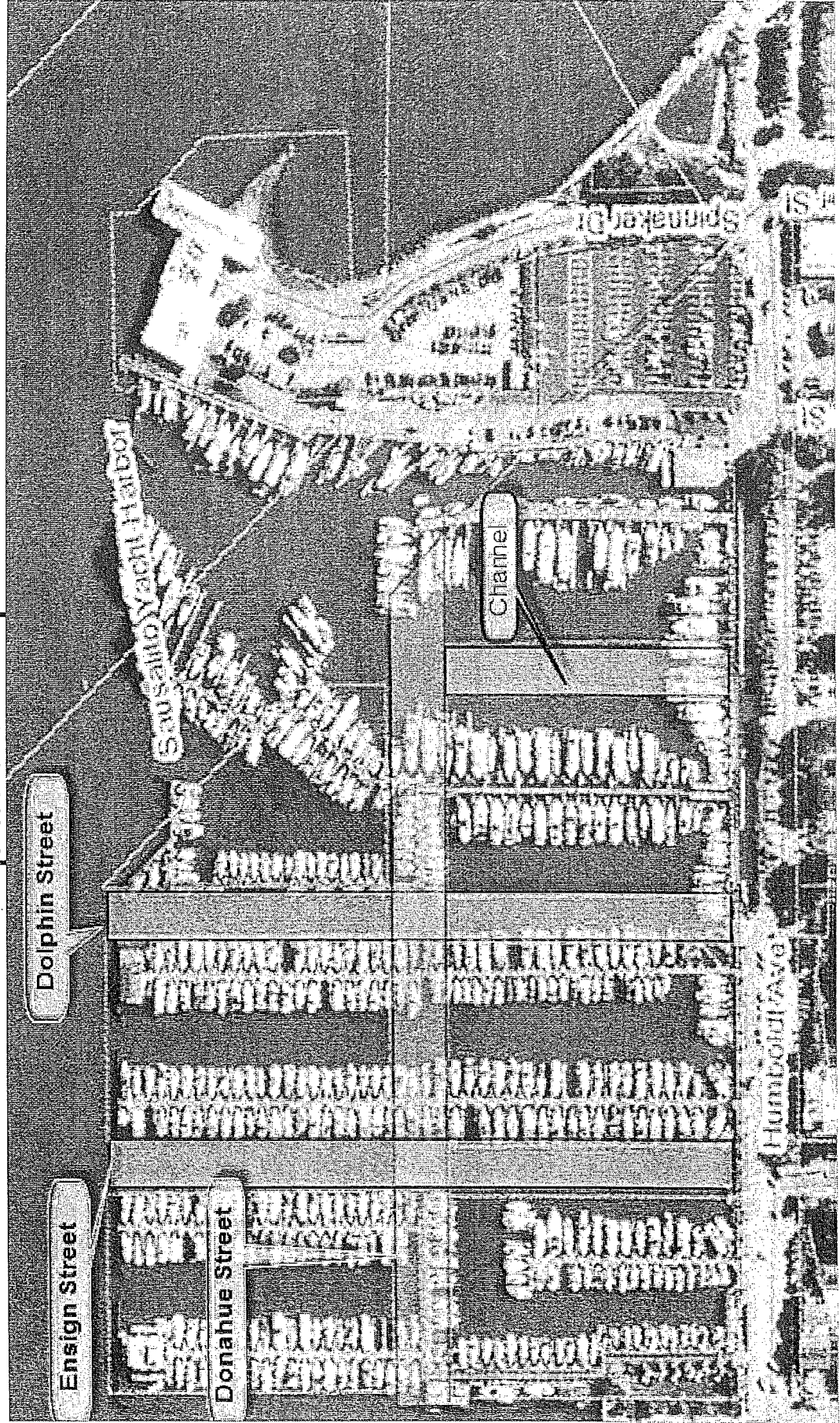


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Disputed Ownership/Public ROW – 110 full or partial slips

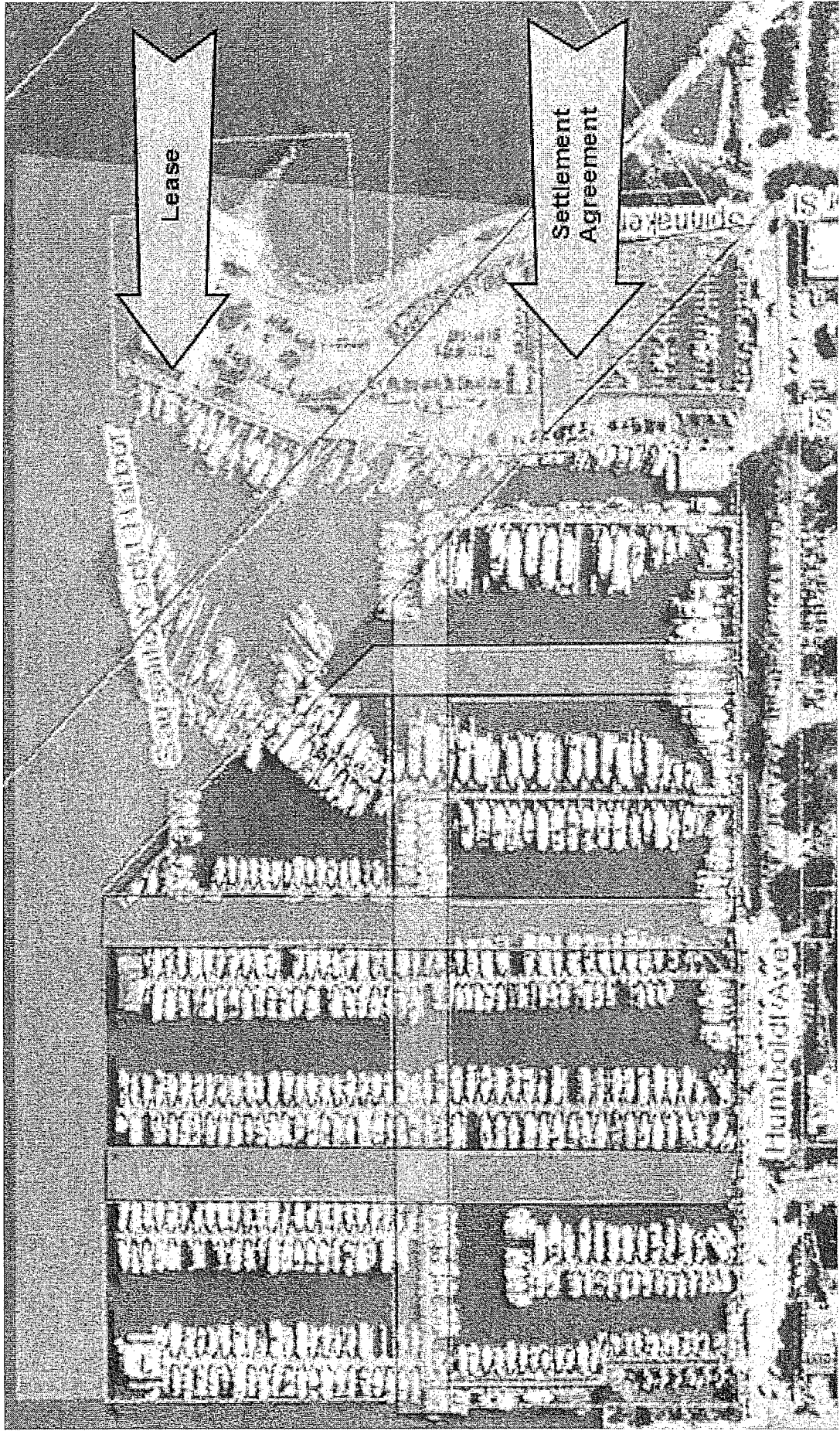


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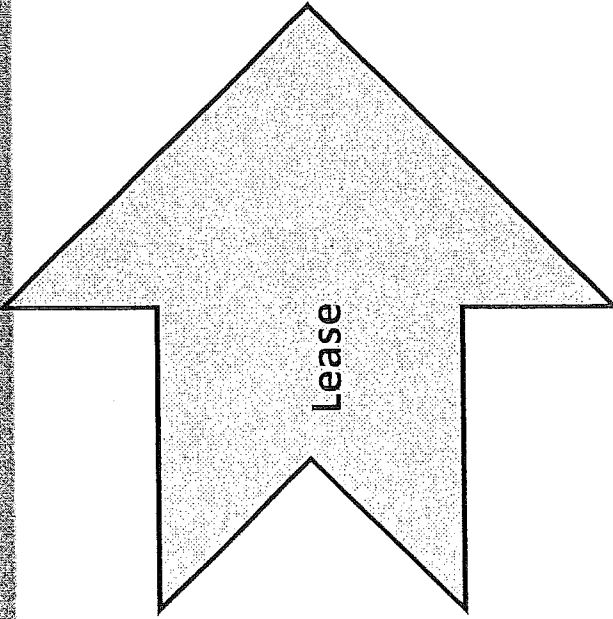


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Two Governing Documents

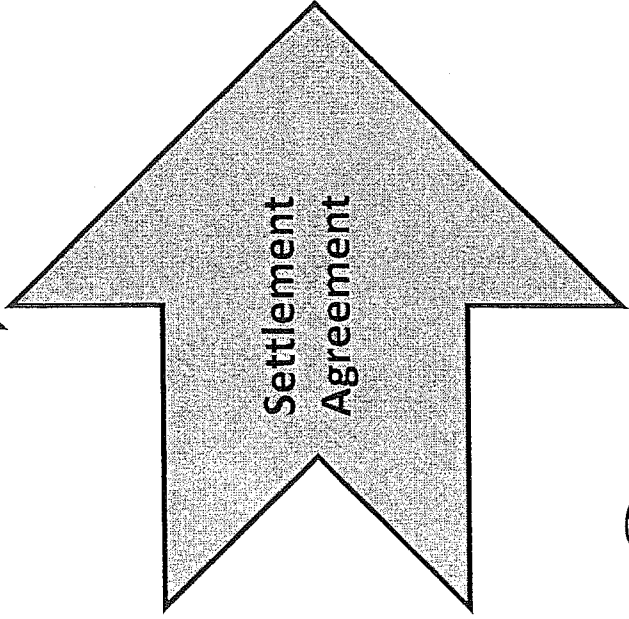


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Lease Agreement

- Executed:
 - January 27, 1992
- Term:
 - September 1, 1991 – August 31, 2041 (50 years)
- Rent consideration:
 - Initial lease period 9/1/91 – 12/31/2002 25%
 - First Extension: 1/1/2003 – 12/31/2029 25%
 - Second Extension 1/1/2030 – 12/31/2035 TBN
 - Third Extension 1/1/2036 – 8/31/2041 TBN
- Number of Slips: ~71



Settlement Agreement

- Executed:
 - September 24, 1976
- Term:
 - January 1, 1977 – December 31, 2027 (50 years)
- Rent consideration:
 - 5% of annual gross receipts
- Number of Slips: ~110, effectively 80

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Responsibilities vs. Rights

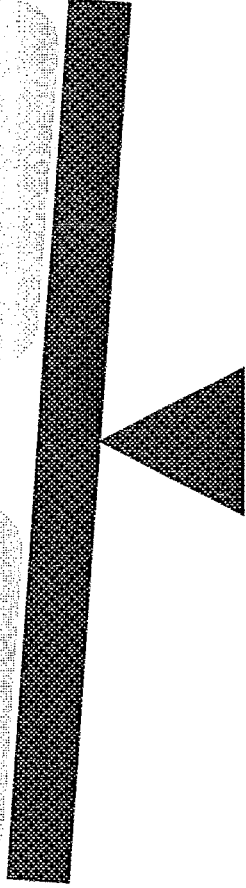
City

SYH

Maintenance
of Bulkhead

Replace
Bulkhead if
City Fails

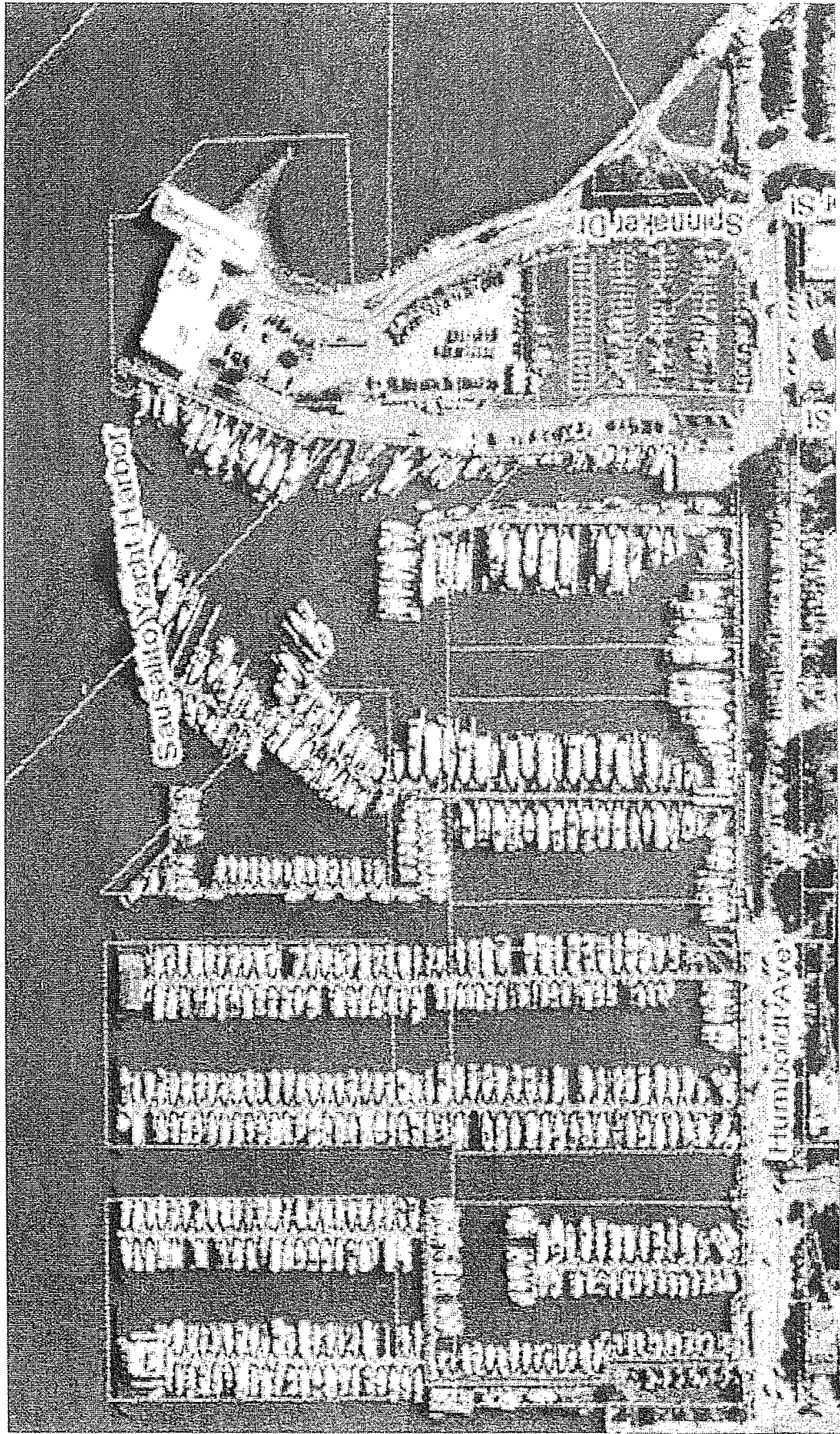
Charge City
10%





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Mutual Benefits and Concerns



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Factors / Financing Options / Analysis

- Factors:
 - Construction Cost
 - Available Cash
 - Debt Capacity
 - Lease Options
- Options:
 - All Cash
 - Borrow
 - Lease Extensions
 - Mix
- Analysis Tools
 - Cash Flow Requirements
 - NPV of Leases
 - IRR on investments
 - Fair Market Value comparisons



Factors

- Construction costs approximately \$5 million
- City and SYH have worked closely the past three years on a 50/50 cost sharing basis to design solution
- Bid documents / required permits are ready
- Tideland Fund has \$2.5 million Fund Balance
- Tideland Fund requires no less than \$1 million working capital for cash flow requirements and emergency reserves



Financing Options

- City does nothing, SYH replaces and exercises 10% interest
- All cash - required \$5 million, available \$1.5 million max
- Borrow
 - Certificates of Participation
 - Taxable issue (private sector benefit)
 - Disputed Public ROW
 - Other City assets
 - Debt limit borrowing
- 50% cost sharing in exchange for lease extension



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Analysis

NPV of Current Situation (000's)		
Current Agreements / Leases	SYH	City
NPV SA	\$2,870	\$ 270
NPV Lease	2,500	1,730
Total	\$5,370	\$2,000
Less Construction	0	-\$5,000
Net Situation	\$5,370	-\$3,000

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Analysis (continued)

NPV of 50/50 Cost Sharing with Lease Extension (000's)			
Agreements/Leases extended to 50 year term	SYH	City	
NPV SA	\$3,880	\$ 500	
NPV Lease	2,690	2,000	
Total	\$6,570	\$2,500	
Less Construction	-\$2,500	-\$2,500	
Net Situation	\$4,070	-0-	
Value Enhancement	\$1,500	N/A	

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Analysis (continued)

NPV of 50/50 Cost Sharing with Lease Extension (000's)			
Agreements/Leases extended to 50 year term	SYH	City	
NPV SA	\$3,880	\$ 500	
NPV Lease	2,690	2,000	
Total	\$6,570	\$2,500	
Less Construction	-\$2,500	-\$2,500	
Net Situation	\$4,070	-0-	
Value Enhancement	\$1,500	N/A	

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Analysis (continued)

Summary of Benefit to SYH / City (000's)		
	SYH	City
Current Situation	\$5,570	\$ 500
Projected Situation	4,070	2,000
Net Benefit	-\$1,500	\$2,500
Potential Value Enhancement	\$1,500	-\$2,500
Adjusted Net Benefit	\$ -0-	-0-

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Analysis (continued)

- To evaluate SYH return on investment, the Internal Rate of Return (IRR) was calculated
 - payment of \$2.5 million for quay wall restoration is SYH investment;
 - cash flow modeling calculated the incremental net operating income that is received over the extended terms of the Settlement Agreement and lease.
 - The result is that the IRR is 7.4%, which is about 300-400 basis points less than would typically be required for this investment.
- A stronger return for SYH is generated once potential value enhancement is considered
 - With a resulting \$1.5 million in value enhancement, the investment required for this transaction is essentially reduced to \$1.0 million and the IRR increases to 10.7%. This yields a return to SYH that is adequate but not excessive.



Analysis (continued)

- The cost of reconstructing the quay wall, estimated at \$5 million, exceeds the NPV of the payments to the City pursuant to the Settlement Agreement and lease by \$3 million over the current terms of the agreements. Therefore, in the current situation, City liabilities exceed City revenues from these properties.
- SYH proposes to fund half of the cost to reconstruct the quay wall, in exchange for which the terms of the Settlement Agreement and lease will both be extended to the spring of 2060.
- The proposal by SYH results in economic benefit to the City of \$3 million in comparison to the current situation (City funds all quay wall costs).
- The proposal by SYH results in a breakeven for SYH in comparison to the current situation (present length of leases and City reconstructs quay wall at the City's costs). Essentially, the benefits of receipt of income for an extended period plus enhanced value to the balance of the marina resulting from the extension, is about equal to the \$2.5 million investment in quay wall reconstruction proposed by SYH.
- From the foregoing, and analysis of the Internal Rate of Return on the quay wall investment proposed by SYH as described herein, we conclude that the proposed transaction would result in receipt of fair value by the City.



CITY OF SAUGATUCK

City Financing Plan - Scenarios

Year	City of Saugatuck					Debt Service					Debt Service					Debt Service																																																																									
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040																																																																
2016	128,710	138,710	148,710	158,710	168,710	178,710	188,710	198,710	208,710	218,710	228,710	238,710	248,710	258,710	268,710	278,710	288,710	298,710	308,710	318,710	328,710	338,710	348,710	358,710	368,710	378,710	388,710	398,710	408,710	418,710	428,710	438,710	448,710	458,710	468,710	478,710	488,710	498,710	508,710	518,710	528,710	538,710	548,710	558,710	568,710	578,710	588,710	598,710	608,710	618,710	628,710	638,710	648,710	658,710	668,710	678,710	688,710	698,710	708,710	718,710	728,710	738,710	748,710	758,710	768,710	778,710	788,710	798,710	808,710	818,710	828,710	838,710	848,710	858,710	868,710	878,710	888,710	898,710	908,710	918,710	928,710	938,710	948,710	958,710	968,710	978,710	988,710	998,710	1,008,710

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Lease Terms and Conditions

- 50 Year Term
- 50% Cost Sharing
- SYH contributes \$2.5 million cash or SYH Finances \$2.5 million
- City contributes \$1 million Cash and Finances \$1.5 million through Lease @ Less than Market Interest Rate
- No single year negative cash flow after lease payment
- Right to refinance in future



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Next Steps

Month, Year	Action	Responsible Department
October, 2010	Draft Lease and Settlement Agreements negotiated	City Attorney / Administrative Services Director
October, 2010	Invitations to Bid Issued	Public Works Director
November, 2010	City Council Approves Settlement Agreement and Lease	City Council
December, 2010	Construction Bids Analyzed	Public Works Department
December, 2010	City Council Awards Construction contract	City Council
January – September, 2010	Relocation, Permitting, Construction Readiness, Preparation, Construction (allowing for spring fishing season)	SYH, Public Works
Fall, 2010	City Council Accepts Final construction Project	City Council

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