



Staff Report

DATE: July 29, 2014
TO: Mayor and City Council
FROM: Kathy Mount, Assistant City Manager

SUBJECT: OVERVIEW OF SAN MATEO COUNTY HARBOR DISTRICT OPERATIONS AND RELATIONSHIP WITH THE CITY OF SOUTH SAN FRANCISCO

RECOMMENDATION

It is recommended that the City Council review and discuss the information presented in this Staff Report, and provide City staff with direction regarding the San Mateo County Harbor District.

BACKGROUND/DISCUSSION

The San Mateo County Harbor District ("District") was formed, and currently operates, according to California State Harbors and Navigation Code Sections 6000 *et seq.* Included in its authority are the following responsibilities: (1) control and operate all harbor works and facilities within its boundaries, (2) supervise pilotage of seagoing vessels within the harbor and the docking of vessels, (3) pass all necessary ordinances for the protection and safety of persons or property using District facilities and waters subject to the jurisdiction of the District. In 1977, the City of South San Francisco ("City") and the District entered into a Joint Powers Agreement ("JPA") in order to jointly develop and construct facilities at the Oyster Point Marina/Park ("Marina Property"). Pursuant to this JPA, the District leases and operates the Marina Property owned by the City. Recently, the San Mateo County Civil Grand Jury ("Grand Jury") issued a report regarding the District's operations which was previously provided to Council. This staff report provides some background information regarding the District, its finances and operations, as well as its relationship with the City.

District Revenues and Expenses

The operating revenues and operating expenses for the District's two harbors are shown in the table below for the last two fiscal years. This data was obtained directly from the District's audited financial statements. Note that this is not the complete financial presentation of the District, but is intended to show the relative net operational revenues and expenses of both its harbors. Most of the District's revenues are from county-wide property taxes*, not from the harbors' operations.

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This financial display is intended to answer the question as to whether the Oyster Point Harbor’s operating revenues pay for its expenses. It is worth noting that countywide property taxes provide more of a subsidy to the Oyster Point harbor than to the Pillar Point harbor.

	Oyster Point		Pillar Point		Total	
	2011-12 Actuals	2012-13 Actuals	2011-12 Actuals	2012-13 Actuals	2011-12 Actuals	2012-13 Actuals
Property Tax Revenues *					4,460,104	5,080,105
Operating Revenues (Berth Rentals, Luanch Fees Rents and Concessions, etc.)	1,502,205	1,361,209	2,021,913	2,067,555	3,524,118	3,428,764
Operating Expenses, Before Capital Improvements and Debt Service (1)	1,569,916	1,689,314	2,087,549	2,291,655	3,657,465	3,980,969
Net Operations	(67,711)	(328,105)	(65,636)	(224,100)	(133,347)	(552,205)

* The District is a countywide taxing entity. As such, it receives a share of all jurisdictions' property taxes in the County. Property taxes are used to support net operations at the two harbors, as well as District Administration, the Harbor Commission, and all capital improvements at both Pillar Point and Oyster Point.

(1) Note, operating expenses here exclude depreciation.

As indicated in the table above, the Oyster Point and Pillar Point operating revenues do not cover all of the District’s operating expenses; however the District does not operate at a deficit as a whole. As a county-wide taxing entity, the District uses property taxes to cover the operating expenses of the two public harbors not otherwise funded by harbor revenues. (Property taxes also fund capital expenditures, debt service payments, and District administrative expenses). Without property taxes, the District would not be able to operate either of the two harbors.

The audited financial statements show that the District has not drawn down on Reserves for the fiscal years ending June 30, 2011, 2012, and 2013. (The 2014 audited financial statements are not yet available). A copy of a key financial summary page from the 2013 audited financial statements page is attached to this Staff Report, and shows that for the last two years financial reserves have grown.

District Relationship with the City

The City and the District entered into the JPA in 1977, and subsequently amended it in 1979, 1985 and 2005, respectively. The JPA governs the development, operations, and maintenance of the Marina Property. The JPA has a forty-nine (49) year term, terminating in 2026, or “until modified or terminated by an agreement in writing by the parties.” (JPA, section 19, p. 18.) Accordingly, in order to make any modifications to the JPA, mutual consent from the City and the District is necessary.

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Upon termination of the JPA, responsibilities for management, operation and maintenance of the Marina Property will revert to the City and the District will be relieved of all of its responsibilities for operation of the Marina Property. (JPA, section 20, p. 18.) Further, upon termination, all District employees will retain their position with the City for twelve (12) months following termination at the same salary and benefits provided by the District. (JPA, section 20, p. 18.) After 12 months, the City and the former District employees can mutually agree to continue the employment relationship.

Oyster Point Ventures Development Project

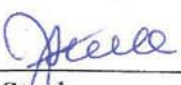
The Oyster Point Development Project contains provisions that impact the JPA or any contemplated termination. Oyster Point Ventures, LLC (“Developer”) entered into a Development Agreement and a Disposition and Development Agreement with the City and the former Redevelopment Agency for development of an office/R&D life sciences campus, commercial development, and public amenities located on property adjacent to the Marina Property and on a portion of the Marina Property (“Oyster Point Project”). Prior to the Oyster Point Project, the District entered into long-term leases with King Ventures for certain portions of the Marina Property (“King Leases”). The District uses rent revenue from the King Leases to pay debt service on loans from the California Department of Boating and Waterways (“DBW”). As part of the Oyster Point Project, Developer also acquired King Ventures’ interests in the King Leases. In order to facilitate the Oyster Point Project, the City, the former Redevelopment Agency and the District entered into an Memorandum of Understanding (“MOU”) which provides, among other provisions, that if the King Leases are terminated before the District satisfies its debt obligations to the DBW, the Successor Agency will provide the District with an annual amount not to exceed the amount of minimum rent in the King Leases (including inflation adjustments) until the DBW debt service is retired, or the termination of the JPA in 2026, whichever occurs first. In addition to providing the District with amounts to pay the DBW debt service, the MOU provides that upon conveyance of Marina Property to Developer, the City will lease to District up to 3,600 square feet of temporary office space, at a rate of one dollar per year, until permanent office space is available at the Marina Property, or termination of the JPA, whichever occurs first.

CONCLUSION

Provide City staff with direction regarding Oyster Point and the San Mateo County Harbor District.

By: 
Kathy Mount
Assistant City Manager

Approved: 
Mike Futrell
City Manager

By: 
Jim Steele
Director of Finance

Attachment: Audited San Mateo County Harbor District 2013 Financial Statements’ Summary Page

San Mateo County Harbor District
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended June 30, 2013

(with comparative totals for the year ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES:		
Berth rental	\$ 2,454,496	\$ 2,414,734
Dock box fees	7,354	8,953
Launching fees	87,555	105,893
Mooring fees	45,938	44,097
Recreational vehicles	42,600	37,505
Rents and concessions	580,471	630,614
Transient berths and dockage	102,970	113,548
Other operating revenues	107,380	168,774
Total operating revenues	<u>3,428,764</u>	<u>3,524,118</u>
OPERATING EXPENSES:		
Harbor Commissioners	529,589	127,153
Administration	1,160,628	1,086,589
Pillar Point Harbor	2,291,655	2,087,549
Oyster Point Marina	1,689,314	1,569,916
Depreciation and amortization	1,456,965	1,448,344
Total operating expenses	<u>7,128,151</u>	<u>6,319,551</u>
Operating income (loss)	<u>(3,699,387)</u>	<u>(2,795,433)</u>
NONOPERATING REVENUES (EXPENSES):		
Capital grants	640,000	28,359
Investment earnings	94,969	123,219
Reimbursements	11,779	(1,596)
Insurance settlements	-	789
Property taxes	5,110,609	4,486,449
County administrative fees	(30,504)	(26,345)
Gain (loss) on disposition of capital assets	29,674	(15,954)
Termination benefits	503,689	(1,050,627)
Interest expense	(404,926)	(446,543)
Total nonoperating revenues (expenses)	<u>5,955,290</u>	<u>3,097,751</u>
Income (loss) before contributions	<u>2,255,903</u>	<u>302,318</u>
Capital contributions:		
Capital asset valuation adjustment	-	20,259,805
Total capital contributions	<u>-</u>	<u>20,259,805</u>
Net Income	<u>2,255,903</u>	<u>20,562,123</u>
CHANGE IN NET POSITION:		
Beginning of year	39,126,210	18,564,087
End of year	<u>\$ 41,382,113</u>	<u>\$ 39,126,210</u>

The accompanying notes are an integral part of these basic financial statements.