

# DANA POINT BOATERS ASSOCIATION PROPOSAL TO CALIFORNIA COASTAL COMMISSION REVISED DANA POINT HARBOR REVITALIZATION PLAN

## Executive Summary

The existing Dana Point Harbor Revitalization Plan was developed some years ago during times of prosperity and readily available financing for most any purpose. The Dana Point Boaters Association (DPBA) understands that today the costs for major commercial construction projects are running well below what they were when the estimates for this project were announced some years ago. However, given the current economic climate it is unlikely a full business case for the current form of this project would be found to be financially viable from an independent and prudent financial perspective.

There are compelling reasons why continuing with a status quo project plan is not appropriate from a financial perspective. The current lending environment features a reduced number of sources for debt financing, a reduced amount of funds available and a reduced ability / willingness to lend. Indeed the amount of financing available today from the sources specified within the plan reportedly falls far short of the current cost estimate. Given current economic conditions as well as the actual project design approved by the California Coastal Commission, the income component of an updated, appropriately conservative financial business case would have to be significantly reduced from the original estimates prepared during the previous prosperous economy.

Given even a smaller capital requirement, and given the reduced financing now actually available, as well as reduced cash flow available to service debt, it is improbable that the entire status quo implementation agenda, inclusive of land-side and on-water redevelopment, can be affordably executed within a timeframe even approaching that originally envisioned.

Most relevant and important from a recreational boating perspective, the status quo implementation agenda calls for completing the entire land side redevelopment project prior to undertaking water side construction. We therefore fear that redevelopment funds will run out and on-water redevelopment objectives will not be achieved.

With these thoughts in mind, DPBA has prepared this proposal for changes in scope, approach and financing, including these key recommendations:

- The commercial core revitalization should proceed but perhaps with some reduction in scope.
- Complete water side reconfiguration should be changed to a systematic replacement of docks over a period of years.
- Boaters should receive various improved amenities before or during the commercial core revitalization.
- Financial reporting should be enhanced to provide separate public visibility of commercial core and water side revitalization funding and expenses.
- Increased transparency should be established regarding the sources and uses of all harbor revenues committed to harbor replacement reserves accounts.
- A revised long-term operations revenue and expense budget should be developed and published to the general public. This revised financial plan should feature realistic income projections, and forecast minimal increases in slip rental rates in keeping with the goal of protecting of affordable boating.

The specifics of the DPBA proposal are contained within the pages which follow.

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## Situation Assessment

The existing Dana Point Harbor Revitalization Plan was developed conceptually during a period some years ago when planning constraints and assumptions were much different than they are today. The key project scoping and financing decisions occurred during the years from 2004 to 2006 and these were times of economic prosperity. Then “easy money” was readily available to finance residential and commercial development nationwide and thus enabled many projects with incomplete and untested value-versus-cost assessments. The Dana Point Harbor Revitalization Project, while clearly worthy in concept, was not an exception.<sup>1</sup> Times have since changed to say the least, and the current economic climate is expected to continue into the foreseeable future.

The existing redevelopment plan features broad scope construction on both the land and water sides - a 53% increase in commercial square footage and a complete teardown and recasting of the existing on-water dock facilities. Given current project scope, inclusive of land and water side expenditures, some estimates of the yet to be quantified project costs approach perhaps \$300 million<sup>2</sup>, including two boat barns and a hotel – convention center which we understand is highly unlikely. The current official financing plan available to the general public includes private financing for the majority of land side construction and DBW loans plus larger reserves built from slip fee increases to finance the water side construction. The trouble is, many of associated economic assumptions are no longer valid and other factors introduce new constraints upon detailed planning. DPBA believes:

- Private financing of commercial development is now extremely difficult and expensive. Such financing may not even be available given the currently available business case.
- DBW financing of water side reconstruction is highly unlikely, in whole and perhaps even in material significant part. This is due to well-known State economic conditions and associated budget constraints.
- Currently over 1400 of a total of 2409 of recreational boat slips within the harbor are less than 30’, the slip size range defined loosely as “affordable” by the California Coastal Commission and others. As many as 150 slips of these slips have been vacant for the past 2+ years since the onset of the economic downturn. These slip vacancies are expected to continue for the foreseeable future, unless rates are significantly reduced, and foretell a corresponding reduction in future net slip revenue yield.<sup>3</sup>
- Poor economic conditions for the foreseeable future, translated into lost purchasing power for the young and many / most other recreational boaters, argues strongly against the current financing plan assumption that significant slip fee increases can occur. Slip fee increases must, of necessity, be contained or vacancy rates will increase further. The notable exception: a small portion of 2409 slip inventory in the largest slip sizes which will likely continue to be 100 percent occupied. This necessity also means less net revenue to repay construction debt than was originally expected.

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<sup>1</sup> The economic viability of the total project has not been publicly established using more accurate cost estimates, currently sources of available financing and updated estimates of funds available for debt service.

<sup>2</sup> Per Chris Street, former OC Treasurer and Tax Collector, summer, 2010.

<sup>3</sup> The Coastal Commission disapproved the original plan which would have significantly decreased the number of these smaller slips, a total proposed reduction of about 1100 slips in favor of smaller number of larger slips with zero vacancy rates.

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## DPBA Recommendations

1. Commercial revitalization is needed and should proceed as rapidly as possible<sup>4</sup>. Core commercial revitalization goals and benefits should be fully protected. However, reductions in commercial scope should be investigated as a real possibility and seriously considered if opportunities are found to exist to reduce construction costs.
2. A revised commercial core reconstruction financing plan, in part funded by the portion of accumulated Tidelands Trust reserves generated from slip revenue, should be considered. These slip revenue based revenues can then be replenished from expanded commercial core revenues on an accelerated schedule beginning immediately following commercial core reconstruction.

*Note that DPBA strongly believes this is viable only given public support and trust (especially amongst recreational boaters) is earned and can be sustained. Other recommendations contained within this proposal are directed to achieving this goal.*

3. The scope of waterside revitalization should be revisited. A key learning from many, many public hearings is that recreational boaters like the harbor the way it is today. Boaters welcome improvements but wish to retain the existing character as much as possible. The Coastal Commission directed that the existing slip size mix can be only slightly modified and the total number slips should not be reduced. Therefore a major goal of complete redesign has also been eliminated. Finally, a complete on-water design rework is also a less attractive for financial reasons.

So instead DPBA believes that it now makes sense to identify and focus on providing as many key recreational boating improvements as possible, given retention of the existing dock configuration. Design and permitting costs will be substantially reduced and some planning related costs, those associated with the Coastal Commission approval process for example, will be entirely eliminated by retaining the existing design. A table containing DPBA suggestions begins on page 6.

4. The current waterside implementation approach should be shifted from accelerated (as fast as possible) reconstruction of all slips to a *systematic replacement of facilities as needed*<sup>5</sup>.

Regarding the impact that systematic replacement will have on water side reconstruction project scheduling, many (most) of the existing dock infrastructures have remaining useful life. From a needs standpoint, it is therefore obviously not essential to replace all docks during a single construction project. Moving to a staggered, systematic waterside facilities replacement will allow cash flow and replenished reserves to finance some of the work, reducing the risk that insufficient funds will be available for the waterside reconstruction when needed. *The net impact will be to reduce the contentious conflict which exists today between competing demands for the same, limited reconstruction reserve funds.*

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<sup>4</sup> Beyond project benefits themselves, there is substantial cost avoidance possible if construction is done during the current depressed economic climate. The project will also provide a badly need boost to the local economy.

<sup>5</sup> An engineering study will likely be necessary to determine the most appropriate dock replacement schedule. Publishing results from a formal study and committing to this plan of replacement actions will also minimize a potential boater concern as to currently needed reserves (derived primarily from slip revenue) being misdirected to commercial reconstruction.

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To clarify the DPBA recommendation, a systematic replacement approach features reconstruction of docks individually. It also assumes increased maintenance to existing docks, on a case-by-case basis, where the opportunity exists to affordably extend useful life while at the same time maintaining the full recreational value necessary to justify the harbor's high slip rental rates that already exist today.

5. Significant recreational boating improvements should be introduced during/before commercial core reconstruction wherever practical; to help assure public support for what will otherwise be perceived to be a reduced support for recreational boating versus the commercial core. A table listing specific DPBA improvement suggestions begins on page 6.

The goal here is to introduce as many targeted recreational boating improvements as possible, as soon as possible. *The significance and timing of these improvements should compare favorably with the commercial core reconstruction timetable.*

6. The new plan must avoid forecasting significant increases in slip rates to assure recreational boating support for the recommended changes in the revitalization plan approach and financing. *Otherwise, boaters will strongly oppose the other recommendations within this proposal.*
7. That said, the slip rates for the harbor should be normalized on a revenue neutral basis to assure that slip rates paid by individual boaters throughout the harbor (both east and west basins) are the same and reflect the actual square footage each standard slip size employs<sup>6</sup>. Today small slip renters pay a disproportionately higher rate per square foot, as do east basin slip renters versus west basin slip renters with the same size slip. While it can be argued what impact slip rate normalization will have on the current small boat slip vacancy rate<sup>7</sup>, the net effect will be to demonstrate fairness and support for affordable boating and thereby to incur favor amongst those who may in turn rent slips in sizes where increased slip occupancy is possible and desirable.
8. Given other recommendations within this proposal related to use of reserves for commercial core reconstruction are enacted, it is necessary to expand current Fund 108 financial reporting in order to demonstrate to all harbor stakeholders, especially recreational boaters, that revenues are being fairly and appropriately collected to cover construction and operating costs. It is also necessary to demonstrate that reserve funds are being fairly accumulated and deployed over the long term (with a planning horizon of 15-20 years), even while reserves are being deployed per DPBA recommendation, in the near term to complete commercial reconstruction. This reporting will be new for Fund 108 and most likely would require additional ongoing accounting resources to accomplish on the outgoing basis required. However, the costs for these additional resources will be more than offset by reconstruction related cost savings and avoidance (greatly reduced debt interest payments for example).

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<sup>6</sup> The dimensions of slips vary slightly. Yet today there are standard rates based on the approximate linear footage. The same pricing philosophy is recommended to price slips based on approximate square footage.

<sup>7</sup> Lower small boat slip rates may translate into higher slip occupancy rates. Higher small slip occupancy rates would yield increased slip revenue and fund increased reconstruction reserves.

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*We emphasize that this additional reporting is essential to the viability of the other recommendations contained within this proposal. Note also that these changes will contribute to the general wellbeing of the harbor through increased transparency that will in turn create new general public support, especially amongst recreational boaters.*

DPBA has specific ideas regarding what changes to make and how they could be accomplished procedurally. We would welcome the opportunity for discussion with appropriate County Finance team members. However, here we would like to focus only upon two outcomes that we view to be essential:

- a. A routinely published demonstration to the general public that the Funds Balance Available (FBA) figure for both recreational boating and non-recreational boating harbor operations is the same (i.e. zero<sup>8</sup>), after contributions to reserves, rather than having one of these two revenue centers with a positive FBA and the other a negative FBA while collectively netting to zero FBA.
- b. A routinely published demonstration to the general public that the sources and uses of reserve funds are being discretely and properly collected, deployed and accounted for between the recreational boating and non-recreational boating aspects of harbor operations<sup>9</sup>.

The first outcome will address arguments heard for years throughout the recreational boating community that merchants are somehow “not paying their fair share”. The second outcome plays a similar role regarding the perception that reserves accumulated from boaters are somehow being deployed elsewhere and as a consequence, slip rents are (unfairly) higher than they would be otherwise.

Stepping back, the overreaching goal here is to create transparency such that amounts accumulated and withdrawn can vary significantly year to year as harbor management sees fit (for example based upon short term reconstruction funding needs, first more on the land side and later more on the water side), while the general public possesses the informational means to continue to be confident that over the long run that reserve funds are being fairly accumulated and used.

9. Because the Tidelands Trust is a self-sufficient and entirely separate legal entity with a strong financial record, it may be a win-win strategy for the County General Fund to buy bonds issued by the Trust, thereby to reduce / optimize the draw against reserves. In light of an even more cost effective Revitalization project scope, combined with the funding and implementation approach this document describes, this financing alternative seems attractive from perspective of both the General Fund and Fund 108. From a General Fund perspective, such a loan would be well collateralized, quite safe and pay a reasonable return. From a Fund 108 perspective, the cost of funds could be (should be) less than if borrowing was done on the commercial market.

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<sup>8</sup> Technically the amount must be less than \$240,000 or by law or the surplus is to be surrendered to the State General Fund.

<sup>9</sup> DPBA believes that a more definitive breakdown in the reserve accounts themselves will aid in achieving this outcome.

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**DPBA Suggestions: Recreational Boater Oriented Amenities Maintenance and Improvements To Be Launched Before / During Commercial Core Reconstruction**

| <i>Harbor Water Recreational User<br/>Amenity Improvement / Amenity Maintenance</i>   | <i>Relative Impact</i> |
|---|------------------------|
| 1. Maintain the harbor in an attractive condition during reconstruction.  | High                   |
| 2. Decrease slip fees to mid-market, rather than the current 15-30% above market average.   | High                   |
| 3. Move guest docks and a new dinghy dock to the east end of the cove (i.e. near Wind & Sea).   | High                   |
| 4. Improve conditions for trailer boaters e.g. widen and lengthen the ramp temporary parking spaces and provide after hour's access to the Vintage Partners storage yard.   | High                   |
| 5. Create concession and actively promote small boat charter opportunities for experienced sailors (use already vacant slips under 30' for chartering boats bigger than at Embarcadero but smaller than by Aventura).   | High                   |
| 6. No longer employ boater dedicated parking, within the Embarcadero or elsewhere within the Harbor, for Catalina Express parking under ANY circumstance.   | High                   |
| 7. NO other uses of boater parking except slip renters. PERIOD! NO EXCEPTIONS!  | High                   |
| 8. Provide a concierge service "we can believe in" for the boater parking area most impacted by new construction. For example, follow the boater to another parking area, perhaps far away, & transport their provisions + all passengers both to and from dock.  | High                   |
| 9. Rebuild (renovate) all boater services buildings during commercial core construction.  | High                   |
| 10. Renovate bathrooms to employ most modern air treatment and humidity control.  | High                   |
| 11. 24/7/365 harbor-wide boater "help desk" service for slip renters (same functionality for all boaters rather than tied to a particular marina operator).<br>a. Telephone VM box "with a press 9 if this is an emergency" (to live transfer to sheriff's office).   | High                   |
| 12. One boater oriented public website for the entire harbor with the service just mentioned,<br>a. Plus public tracking of complaints filed and resolutions, trends by type of complaint, etc.<br>b. Plus links to (at least a list of) every single authorized vendor & organization servicing the harbor (including us)<br>c. Plus lots of other services such as wait list status and means to apply, slips | High                   |

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| <i>Harbor Water Recreational User<br/>Amenity Improvement / Amenity Maintenance</i>  | <i>Relative Impact</i> |
|--|------------------------|
| <p>available for sub lease (now and in the future).</p> <p>d. Create and actively promote use of an email address to send complains to, with publicly visible logging and automated 1st response.</p> <p>e. Consider “social media” spin: boaters talking to boaters about whatever we want to talk about.</p>                                   |                        |
| <p>13. For boaters with slips in the East Basin Cove (minimum, but perhaps for all slip renters) provide a key card with their name and slip assignment embossed on the front. On peak volume days, post an attendant at the East Basin Cove gates to enforce a new rule which has no exceptions: no matching gate pass, no entrance to lot.</p> | High                   |
| <p>14. Have trained and supervised attendants at the gates during all weekend daylight hours during the summer months to assure that only slip and dry storage renters gain access to boater dedicated parking.</p>  | High                   |
| <p>15. Provide some sort of temporary (summer?) tie up for small boaters at “Danalina” sand bar area near the west end of the outer breakwater. Maybe an anchored dock for Med tying?</p>  | Medium                 |
| <p>16. Establish a boater volunteer list. Use to volunteer list to lower DPH operating costs in various ways to be determined. (For example, staffing the boater parking gates during summer month weekends and special events.) Provide recognition and/or special consideration, maybe even a small reduction in rent.</p>                     | Medium                 |
| <p>17. Install gates and provide key cards for West Basin slip renters.</p>  | Medium                 |
| <p>18. Use the same cards as we use at gates to electronically unlock dock gates.</p>  | Medium                 |
| <p>19. For the boater parking areas most impacted by new construction: assign a parking space to each slip renter.</p>   | Medium                 |
| <p>20. Add a boater services building at the Embarcadero.</p>  | Medium                 |
| <p>21. Add a boater services building at the west end of in the West Basin Island parking lot.</p>   | Medium                 |
| <p>22. Add (separately rentable) boater storage boxes (size TBD, the Public Storage concept) in/near the rebuilt/renovated boater services buildings.</p>  | Medium                 |
| <p>23. Add no charge (for slip renters) dinghy / yacht tender launch and retrieval areas in all 4 areas of the marinas (east and west, cove and island).</p>   | Medium                 |
| <p>24. Provide key card enabled access to free ice for slip and dry storage renters.</p>   | Low                    |