REVIEW of PROPOSALS for City of Key West Marina and Upland Development Opportunity, dated July 20, 2008

Prepared by AECOM USA, INC.
in association with Marina Management Services Inc.,
dated April 27, 2009

Table of Contents

Introduction.....2
Project Identification.....2
Methodology Used 2
General Comments.....3
Design Analysis.....3
Financial Analysis.....6
Return on Investment.....9
Proposals Compared to the Master Plan.....10
Conclusions.....10

Introduction

This document provides a technical and financial review and insight to the two proposals submitted to the City of Key West (RFP 08-011) for development of a marina and other upland amenities on the Truman Waterfront. Observations from an operations and financial viability aspect noted that both project submittals relied heavily on the marina's income and subsequent success to recoup the proposer's investment. We have made what we consider reasonable comparisons and estimates based on our knowledge of the local market and our own marine industry experience. The issues and recommendations made herein should be used as a guide to assist the City in their review of the responses to the RFP.

We make every effort to take into account factors relating to the specific property being evaluated as well as comparable businesses in the market area plus our working knowledge of the marine industry. We make no representations, expressed or implied, as to the validity of this document. This document is an opinion. We have no financial interest in this property beyond the fee charged to prepare this document nor any relationship or prejudice against either proposer. The financial analysis of these proposals was done by reviewing the financial data and design programming taken directly from the submitted proposals. No additional research or other external data was taken into consideration to validate the proposer's assumptions. The conclusions arrived at are done so without bias and believed to be a fair review of the responses to the RFP.

Project Identification

The analysis conducted was achieved by reviewing the documents provided by the City of Key West in response to the City's Request for Proposal number 08-011. The City received two proposals from interested parties for the redevelopment of the Truman Waterfront Parcel. The two parties submitting proposals include AAA Marine Group, Leyva Marine Group, Cardenas Investments II, Key West Harbour, LLC (KWH); and Meisel Capital Partners, LLC and Spottswood Companies, Inc. (MSM).

Methodology Used

There were two proposals submitted for the project. Each of the proposals took a different approach to the project. The KWH proposal appears to be a lease proposal while the MSM proposal appears to be a management proposal. As a result, the two proposals could not be directly compared to one another. We elected to look at each proposal on its own merits from a financial standpoint. We used the proposed linear feet of rentable dockage in each proposal as the primary source of revenue to service the cost of the investment and provide the income to pay the City a fair return for the right to develop. We factored in any additional income from other sources that required other investment such as commercial rental space and fuel services for yachts. We did not consider any

concessions from the City that was sought by one proposer. Our reasoning was that the project must stand on its own merits to be considered. Should the City elect to offer concessions it should be done in final negotiations after all proposals have been given equal consideration. If we had to make an assumption to clarify in reaching a conclusion in a proposal, it is so noted.

General Comments

It should be noted that both proposals reviewed lacked sufficient detail to justify their respective return on investment, although, reading through the proposals, it is our opinion that the proposers do have an understanding of marinas that would allow the them to be able to carry out the development. The City should first look at the overall design concept proposed and become comfortable with it then look at the financial analysis. We believe, that if the City selects either of these proposals, the scope of the project will have to be substantially modified to satisfy both parties.

Design Analysis

We have not commented on the specific type of in-water or upland facility proposed. We have looked for the reasonableness of the cost to construct based on the number of linear feet of dockage proposed.

Each proposal has a different approach to presenting the design of the project although based on the renderings submitted both proposals consist of individual slips, side ties and wave attenuator surrounding the proposed marina basin. To evaluate both designs for cost analysis purposes, total linear footage of rentable dockage must be used.

In the KWH proposal, they submitted one design consisting of 87 wet slips that included an unspecified amount of side tie docking totaling of 5,910 linear feet of rentable dockage. The MSM proposal submitted four designs, discounted three of those designs and detailed the remaining one. We have used the one MSM ultimately proposed in its analysis. The MSM design consists of a total of 4,480 linear feet of rentable dockage including 39 slips averaging 71.3 feet in length and 1,700 linear feet of side tie.

The following table was prepared recapping the information as presented in each proposal. Note that the KWH proposal lacks detail to compare development line items to the MSM proposal. The MSM proposal includes development costs that are not essential to the development or operation of the marina. We have grouped the cost to identify what it can, based on the proposals submitted. Marina costs are those costs related to development over the water. Upland development costs related to the marina are those costs that are essential to have a working marina and upland development costs non-marina related are those costs that enhance the project but are not required to operate the marina.

	KWH 5,910 Liner Feet Rentable Dockage	MSM 4,480 Linear Feet Rentable Dockage
Marina Costs (As Defined In Proposals)		
Marina Slips Cost	$1,000,000	
Wave Attenuator		$5,520,000
Construction Permitting (Marina)		$250,000
Main Pier And Walkway		$1,692,000
Finger Piers, Etc.		$3,510,000
Gangways		$100,000
Utilities		$70,000
Development Fee		$557,100
Total Marina Development Costs	$1,000,000	$11,699,100
Upland Development Costs Related to Marina		
Marina Promenade*		$717,070
Security Fencing*		$90,000
Site Clearing And Grading*		$110,874
Site Dock Utilities And Fuel Tanks*		$1,053,303
Parking*		$601,040
Pool Deck*		$429,200
Pool*		$750,000
Support And Restaurant Bldg*		$5,600,000
Marina Services Building*	$500,000	
Landscaping And Irrigation*		$110,874
Signage*		$30,000
Waterfront Access Road Resurface*		$72,730
Site Surveying And Engineering*		$332,593
Planning And Legal Fees*		$332,593
Architectural And Engineering Fees*		$997,779
Project Management Fees*		$554,322
Building Foundation Construction*	$12,500,000	
Total Upland Development Costs Related to Marina	$13,000,000	$11,782,379
Upland Development Costs Non Marina Related		
Truman Historic Park - Promenade**		$524,650
Truman Historic Park - Site Clearing And Grading**		$204,230
Truman Historic Park Site Utilities**		$255,287
Truman Historic Park Hardscape Walks**		$76,950
Truman Historic Park - Rubble Climbing Wall**		$111,000
Truman Historic Park - Fountains**		$120,000
Truman Historic Park - Landscaping And Irrigation**		$204,230
Truman Historic Park - Signage**		$25,000
	KWH 5,910 Liner Feet Rentable Dockage	MSM 4,480 Linear Feet Rentable Dockage
Admirals Cut Bridge**		$750,000

Waterfront Park - Ramp**		$80,000
Waterfront Park - Clearing And Grading**		$482,860
Waterfront Park - Site Utilities**		$120,715
Waterfront Park - Walks**		$46,000
Waterfront Park - Fountain**		$100,000
Waterfront Park - Pavilion**		$400,000
Waterfront Park - Landscaping And Irrigation**		$96,572
Waterfront Park - Signage**		$20,000
Entry Drive And Road Access - Grading And Paving**		$577,430
Entry Drive And Road Access - Site Utilities**		$115,486
Entry Drive And Road Access - Landscaping And Irrigation**		$43,307
Entry Drive And Road Access - Signage**		$50,000
Public Parking - Clearing And Grading**		$185,058
Public Parking - Site Utilities**		$231,323
Public Parking - Paving**		$438,360
Public Parking - Landscaping And Irrigation**		$68,493
Public Parking - Signage**		$20,000
NOAA Area Walkway - Promenade**		$402,860
NOAA Area Walkway - Site Utilities**		$80,572
NOAA Area Walkway - Fencing**		$75,300
Ellipse Event Grounds - Clearing And Grading**		$735,540
Ellipse Event Grounds - Site Utilities**		$147,108
Ellipse Event Grounds - Walkway Pavers**		$295,310
Ellipse Event Grounds - Crushed Gravel Jogging Path**		$285,025
Ellipse Event Grounds - Fencing**		$89,700
Ellipse Event Grounds - Landscaping And Irrigation**		$147,108
Ellipse Event Grounds - Signage**		$20,000
Site Surveying And Engineering Fees**		$175,414
Planning And Legal Fees**		$175,413
Architectural And Engineering Fees**		$526,241
Project Management Fees**		$292,356
Total Upland Development Costs Non Marina Related	$0	$8,794,898
Total Proposed Development Costs	$14,000,000	$32,276,377
Total Linear Feet of Income Producing Dockage	5,910	4,480

* Phase I

** Phase II

Removing the non-essential development costs from the MSM proposal and using the linear feet of dockage proposed in each submission shows that the MSM proposal appears to be more in line as to the total cost to construct a floating dock marina. This is especially true when the depth of the water in the proposed marina is considered. The MSM proposal addresses the wave attenuator necessary for a comfortable marina while in the KWH proposal it is unclear whether the line item "Building Foundation Construction" costs of $12,500,000 includes a wave attenuator, so one must look at the overall costs to assess the more reasonable proposal regarding total marina investment as presented in the following table.

	KWH 5,910 Liner Feet Rentable Dockage	MSM 4,480 Linear Feet Rentable Dockage
Project Development Cost Per Linear Foot		
Marina	$169	$2,611
Upland Development Costs Related to Marina	$2,200	$2,630
Total Marina Development Costs	$2,369	$5,241
Upland Development Costs Non Marina Related		$1,963
Total Project Development Cost Per Linear Foot	$2,369	$7,204

Due to the disparity between the per linear foot cost, we recommend that the City submit to each proposer a detailed list of development components for the marina and have each proposer fill in the amounts on a line by line basis. Each proposer must keep the same total amount identified for the marina and upland development costs related to the marina as originally proposed. The original amounts are $14,000,000 for KWH and $23,481,479 ($32,276,377- $8,794,898) for the MSM proposal. This exercise will allow the City to make an informed decision as to what the proposer had planned, if a fair return on the investment can be achieved, and if there are adequate funds available to give the City a return for giving the proposer the development rights.

Financial Analysis

As with the development costs analysis, we wanted to determine in sufficient detail that the projected revenues and expenses are in line. Once that is determined, then it is appropriate to see if the projected income is reasonable to warrant the proposed investment.

We have used Year Six of operation to compare the revenues and expenses presented in each proposal. Year Six (2017) was chosen because in both proposals the project is stabilized and future revenue and expense projections should be related to increases in the Consumer Price Index and the economy in general.

While extracting the information from each proposal, we noted a couple of items that needed to be mentioned before reviewing the following table. In the MSM proposal, the gross profit on fuel is the same as the projected revenue from the restaurant lease. We calculated this with the other years and it seems to be consistent. Upon reviewing the MSM proposal, we noted that the organization chart shown on page 20 of the proposal indicates that there is a food and beverage manager and restaurant staff, yet the revenue is shown as a lease. The reason this is critical to understand is that the MSM total expenses appear high for a marina operation of the size proposed and most likely includes restaurant cost to manage the restaurant while not including the gross profit for the restaurant. This point needs to be clarified.

The dockage rates presented in the MSM proposal raise a question whether they can be achieved. On page 25 of the MSM proposal, transient and long-term rates are defined. We do not believe the per-foot rate is unrealistic, but in the financial proforma, MSM uses transient rates 100% of the time to achieve the dockage revenues. On page 22 of the proposal, under Marketing Plan, MSM refers to offering charter boats based in the marina with discount dockage rates, yet these discount rates are not reflected in the financial proforma, thus overstating the projected income. The magnitude of this oversight cannot be determined without further input from the proposer.

In the KWH proposal, the opposite approach is taken and KWH projects a monthly dockage rate 100% of the time while the proposal clearly indicates that the marketing plan includes transient boaters that will arrive at the marina. We believe that if a more in-depth analysis of dockage rates were included in the projected revenue, the KWH proposal would increase. Again, the magnitude of this oversight cannot be determined without further input from the proposer.

In summary regarding revenues, we believe the MSM proposal has overstated its projected dockage revenues while the KWH proposal has understated their projected dockage revenues. We believe a further inquiry by the City to both proposers is in order.

The occupancy projections for both proposers are within reason, although the City may want the proposers to develop a best, most likely and worse case scenario for occupancy. They would then run those numbers through their respective proformas to see what kind of concessions may be requested if expected occupancy levels are not achieved.

When reviewing the proposed expenses, the KWH proposal shows more understanding of the details of operating a marina than the MSM proposal. The overall expenses in the MSM proposal are 47.2% of total revenues, which is on the high side for a wet slip marina. If the expenses are justified but the revenue is overstated, as may be the case, that percentage will increase even higher. In the KWH proposal, the operating expenses are still on the high side at 43.6% of total revenues, but individual line items appear to be more in line for a wet slip marina than the MSM proposal. If, upon further review, the KWH dockage rates need to be adjusted upwards, as appears to be the case, this percentage will decrease. We would expect operating expenses for a transient orientated wet slip marina, excluding rents paid to the City, to be in the mid to upper thirty (30) percentile of total revenues.

The following is a schedule comparing individual line items for revenues and expenses as presented in each proposal. Note these numbers represent year six (2017) of operation, a stabilized year.

	KWH 5,910 Liner Feet Rentable Dockage	MSM 4,480 Linear Feet Rentable Dockage
Annual Income Comparison Stabilized (Year 6 - 2017)		
Revenues		
Slip Income	$2,963,877	$5,138,784
Service Department Lease	$59,703	$0
Fuel Sales - Gross Profit	$0	$191,442
Restaurant Rental (Lease)	$0	$191,442
Total Revenues	$3,023,580	$5,521,669
Expenses		
Advertising And Promotion/Marketing	$60,000	$105,000
Community Events Contributions	$20,000	
Garbage Disposal	$17,389	
Insurance	$104,335	$630,000
Legal And Accounting	$28,982	
Landscaping And Grounds		$255,256
Management Fees	$272,997	$276,083
Misc/Contingency	$100,000	$127,628
Office Supplies And Equipment	$11,593	$63,735
Payroll	$231,855	$638,141
Payroll Taxes	$16,230	
Postage	$3,478	
Repairs And Maintenance	$36,000	$382,884
Property Taxes	$115,927	
Security	$63,296	
Telephone	$3,478	
Uniforms	$1,159	
Utilities	$231,855	$127,628
Total Operating Expenses	$1,318,574	$2,606,355
Net Operating Income To Cover Return on Investment And Payment To City of Key West	$1,705,006	$2,915,314
Proposed Rent to City of Key West	$191,098	
Net Operating Income To Cover Return on Investment After Payment To City of Key West	$1,513,908	$2,915,314

It is worthy to note that the MSM proposal includes a line item for $2.7 million of additional revenues in each year of their financial proforma based upon receiving 50% of the recently implemented one-cent increase of the bed tax as stated on page 27 of the submittal. We do not understand why this proposal is being considered when page 15, paragraph 3, of the RFP prepared by the City of Key West clearly stated, "Proposals that are contingent on receiving financial

assistance in any form from the City shall not be considered." The MSM proposal definitely requires financial assistance from the City to be a financially viable project. The City may want to reconsider their position on financial assistance if the City expects the proposer to invest in non-revenue producing development on the site such as proposed by MSM for a total of $8,794,898. The $8,794,898 is defined as non-essential marina burdened development costs that do not generate revenue in the MSM proposal. For this exercise, we eliminated all reference to receiving the Bed Tax revenue. As a result, we did not include or consider this revenue in our analysis.

Both proposals indicate they are going to pay a management fee. The KWH proposal has the management fee at nine percent (9%) of gross revenue while the MSM proposal has it at five percent (5%). We have serious concerns about the management fee being proposed. If a third party Management Company proposed to manage the property without any capital investment, the percentage would be a maximum of five percent of revenues. With the MSM proposal, the rate is at five percent of revenue, but we believe the dockage rates are too aggressive and will be lowered after a closer review. Any decrease of the MSM revenues will also decrease the management fee charged to the project.

Return on Investment

Both proposals were submitted on a Design/Construct/Manage proposal. The KWH proposal further identified an amount to be paid to the City while the MSM proposal did not. For review purposes, we will make our comments regarding return on investment before any proposed payment to the City. The following schedule shows the expected return on investment for proposers based on the information as submitted in their respective proposals.

	KWH 5,910 Liner Feet Rentable Dockage	MSM 4,480 Linear Feet Rentable Dockage
Return on Investment Before Payment To City On Marina Investment	12.2%	12.4%
Return on Investment Before Payment To City Including Non Marina Infrastructure	N/A	9.0%

The approach to developing the site that each proposer submitted is different; as a result, a direct comparison of both proposals is not relevant. We believe that both proposers are capable of bringing the Truman Waterfront Development Project to fruition but with a different vision for the property. Given our concerns about the proposed dockage rates, construction costs and operating expenses presented in each of the proposals it is our opinion that the risk for the expected return on the overall investment in the project would question the viability of going forward in the manner proposed by either applicant. The City should

decide which proposal meets the vision for developing the site and then have the proposers modify their responses to address the unanswered development costs and financial questions to clarify their respective positions.

Proposals Compared to the Master Plan Program

Both the KWH and MSM proposals utilize the existing Building 103 as upland support for the marina as identified in the Master Plan.

Both the KWH and MSM proposals introduce additional parking spaces over the number of parking spaces identified in the Master Plan.

The MSM Proposal introduces a resort swimming pool and restaurant, not identified in the Master Plan.

Conclusions

The applicants' proposals did not directly compare due to differences in information provided, project approach and related development features. Therefore, we noted four main items that the City should carefully identify when reviewing and considering proposals. They Include: Development Costs, Revenues, Expenses, and Return on Investment (ROI). Both the KWH and MSM proposals lack sufficient detail for analysis of respective items. Additional data from the proposers would assist the City in making a decision. We can support the City in identifying a list of items needed to create a more accurate analysis.

Item	KWH 5,910 Linear Feet Rentable Dockage	MSM 4,480 Linear Feet Rentable Dockage
Development Costs and related marina upland components	The development costs look to be low and lack detail. Per foot slip costs are very low.	The development costs are likely in-line with the development considered. Per foot slip costs are near industry standard for project.
Revenues / Rate Structures/ Occupancy	The rate structure is understated due to the use of 100% monthly slip rates but lacks detail for transient rates. Occupancy average is inline.	Revenues are overstated due to the use of 100% transient slip lease rates and lack detail for monthly rates. Occupancy average is inline.
Expenses	Expenses look to be in-line with industry standards and provide sufficient detail to analyze.	Expenses look to be high and lack sufficient detail for proper analysis.
Return on Investment (ROI) before City Remuneration	The ROI is low but will climb with adjustment to revenues through a proper rate structure but may be offset by possible increased development costs.	The ROI is low given the inflated revenues. Adjustment of revenues will drive ROI lower but may be offset by decrease of expenses.