

## MEMORANDUM

July 17, 2015

To: Andrew Farkas, Jeffery Epstein

From: Tom Mukamal

Cc: Frank Garrison, Eric Simonton, Kenny Jones

### **RE: American Yacht Harbor Asset Management Strategy**

Since the onset of the financial crisis, the capital investment strategy for AYH has been (A) to preserve and extend the life of the existing infrastructure for as long as possible, immediately addressing any life safety concerns, and to make limited strategic investments in the infrastructure that provide near term ROI or are necessary to preserve service standards and business continuity, and (B) to preserve and build a working capital surplus in order to (i) maintain a cash balance sufficient to mitigate a potential catastrophic windstorm event loss (note our windstorm deductible is 5% of the total loss capped at \$1MM) (ii) to secure long term re-financing and (iii) address longer term infrastructure issues at the marina in a cost effective manner.

#### **Preservation of Infrastructure/Life Safety & ROI**

Capital infrastructure spending at the property was restricted during the recession as cash flow levels declined, however spending has now increased steadily over the last few years. Capital spending in 2013 was \$123,746, in 2014 it was \$346,420, and in 2015 it is \$341,599 YTD and is projected to be approximately \$400,000 at year end. Based upon 2015 projected total revenue (including fuel net profit only) estimated to be approximately \$5.3MM, this would equate to a capital investment rate of 7.6% of revenues in 2015.

In recent years, major CAPEX projects have included (not limited to):

- Marina bathroom refurbishment
- Marina access control gates and fencing
- Site signage
- Railing replacement throughout the property
- Cistern refurbishment

Major on-going Repairs & Maintenance projects include:

- Parking lot striping
- Building painting
- Driveway repairs
- Roofing repairs
- Dock decking repairs and resurfacing

Although there has been much accomplished at the property in the last few years, there is still a substantial amount of refurbishment and maintenance anticipated in the coming years. With the capital intensive handrail project wrapping up focus will be shifted to the following projects during the remainder of 2015 and 2016:

- Elevator cab refurbishment (*at request of ownership*)

- Parking garage ceiling, lighting, and painting improvements to improve appearance and uniformity (*at request of ownership*)
- Building stair repair/replacement
- Roof Gutter and flashing replacement
- B/C Building decking improvements to improve uniformity and aesthetics
- Landscape refreshment to improve curb appeal
- P Dock Refurbishment (AYH will contribute \$59,500 towards the approximately \$350,000 that St Thomas Sport Fishing Center will be investing in the refurbishment of P Dock. The scope of the project includes sleeving the existing piles, reinforcing the stringer and pile lateral load system, re-decking and running new utilities.)

### **Working Capital Surplus**

At December 31, 2015, we estimate that there will be a working capital surplus at AYH of \$1.8MM. There are many competing demands on these funds as outlined below.

#### *Loan Refinance*

Management has placed this project as the first priority with respect to the use of any working capital surplus. Some or all of this working capital surplus may be required in order to facilitate an extension or refinancing of the current property loan with Banco Popular, which matures September 1, 2017. The Banco Popular loan is on extremely favorable terms. It has an outstanding principal balance of \$12,913,200 at July 1, 2015, amortizes over a 30 year period and bears interest at LIBOR plus 2.00%. Executing a multiyear extension of this loan is important to realizing future value at AYH and it is possible that Banco Popular will require a principal payment in connection with an extension or a refinance. We were informed by Banco Popular that we should receive a response to our extension request before the end of July.

#### *Long Term Deferred Maintenance at Marina*

The marina structures are approximately 30 years old. A large scale refurbishment or redevelopment of the marina will likely be required over the next several years. The marina has been kept functional with a steady repairs and maintenance program. The strategy employed has been to maintain the docks and utilities at a level that ensures business continuity and safety. On-going decking and re-surfacing repairs and servicing of the utility systems have been the focus.

To date, there has not been sufficient market justification to undertake a wholesale redevelopment of the marina. Market conditions (including weak slip demand, high utility costs in the USVI etc.) and the physical limitations of the site limit the potential upside of any redevelopment scenarios. A conceptual redevelopment study by ATM (IGY's engineering subsidiary) conducted in 2013 produced a new marina layout that included larger slips to meet future market demand (assuming a broader market recovery), but also requires dredging and shoreline stabilization to make better use of inner slips. The overall concept reduced available linear footage (although increased "usable" linear footage of dockage) when compared to the current layout, and was estimated to cost between \$4MM and \$5.5MM assuming dredging and permitting hurdles could be overcome.

In 2015, ATM will be submitting on American Yacht Harbor's behalf an application to secure federal grant funding to partially finance the market, engineering, and bathymetric studies and designs necessary as the first step to redeveloping the marina. The cost of this work is approximately \$75,000. The project would be eligible to receive 25%-50% of the total cost of the effort under the US Fish and Wildlife Service Boating Infrastructure Grant program ("BIG Grant"). The Wildlife & Sport Fish Restoration program grants between \$12-16MM annually nationwide. Through ATM, we are intimately familiar with the program and

have secured over \$15MM in funding for its clients in recent years. The application is due in September, 2015 and if successful, funding would be granted in early 2016. The engineering work would commence immediately upon funding approval.

Once the marina redevelopment project is fully defined, a second round of BIG Grant funding could also be sought to offset the actual construction costs of the project. Partial funding for the construction of the project could be applied for in 2016 and potentially received in 2017, at which time permits and contractors could conceivably be in place. The BIG Grant funding of 25-50% of the project would have a significant impact to the financial return analysis of the project.

Management is also waiting to see the results of the "P" Dock reconstruction project being undertaken by St Thomas Sportfishing Center, which will likely provide useful insight into the costing and methodology of the AYH marina redevelopment. Specifically, whether existing piles and structural members may be reinforced at a lesser cost or whether complete demolition and replacement is required.

Assuming new financing is obtained without the requirement of a significant principal paydown, our goal is to attempt to secure a federal grant and phase in the refurbishment over multiple years, such that the marina redevelopment may be funded out of the current cash reserves and operating cash flow. This will be highly dependent upon the availability of BIG Grant funding, the ultimate cost and scope of the project, the extension and/or refinancing of the bank loan, and overall market conditions (which are improving).