

CAPTAIN & ASSOCIATES

REAL ESTATE APPRAISAL & CONSULTING

December 16, 2016

Ms. Joanne Brown
General Manager
Port Authority of Guam
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Dear Ms. Brown:

Subject: Updated Consulting Report Regarding Analysis of Alternate Management Regimes for the Gregorio D. Perez and Agat Marinas, Island of Guam, United States of America

In response to your request, we completed this Updated Consulting Report regarding an Analysis of Alternate Management Regimes for the Gregorio D. Perez and Agat Marinas, Island of Guam. This update report involves a scope limited to updating our prior recommendations. Selected excerpts from our prior May 2011 report are contained herein. The reader of this report should be familiar with our May 2011 report.

Under Government of Guam ownership, the Port Authority of Guam ("PAG") controls the Gregorio D. Perez (GDP) and Agat Marinas. PAG's core business is to oversee the Guam Commercial Port, which provides the people of Guam with ocean commerce, shipping, recreational and commercial boating as well as sea vessel navigation. PAG provides a critical role with a reported 90 percent of the day-to-day goods and supplies consumed by Guam residents passing through the Port. Control of Guam's marinas was transferred to PAG in 1984, partially because of its expertise in managing harbors, ship docking and implementing harbor safety.

Guam's marinas provide a gateway to the island's vast oceanic resources. The marinas support Guam's boater population, which reportedly includes approximately 300 offshore subsistence, recreational and commercial fisherman and boaters. The marinas remain critical to Guam's visitor industry, with estimates of more than 250,000 visitors annually using the marinas for para-sailing, dolphin watching, fishing charters and other activities. For many years prior to 2012, Guam's marinas suffered from neglect and both marinas were in overall poor to fair condition. Most recently, significant marina-related improvements were completed and various major repair work projects remain on-going or are proposed.

Notably, approximately \$5.1 million has been spent mainly on the GDP Marina since 2011 including sheet piles, new docks, pile extensions, pump outs and other upgrades. The overall condition of the GDP Marina has vastly improved since 2011. Additional master planned improvements, if completed, will transform the GDP Marina into another showcase public property in Hagatna. During 2015, three new docks were installed in Agat. The overall condition of the Agat Marina has vastly improved since 2014 with the new and repaired docks as well as recent opening of the renovated and expanded Marina Grill (former Jan Z's) restaurant and bar. However, Dock "B" is damaged and scheduled for removal.

Our prior May 2011 assignment was to prepare a Consulting Report including an analysis of alternate management regimes for Guam's marinas. The function of that consulting report was to provide informed market based analyses and conclusions, in addition to relevant supporting data, upon which internal, marina management-related decisions may be based. This update report involves a scope limited to updating our prior recommendations. The intended users of both reports include the client, its authorized representatives and any auditors or regulators that may be involved with oversight.

This updated report is subject to the Assumptions and Limiting Conditions contained in the Addenda. The effective date of this updated consulting assignment is December 15, 2016. Our prior analyses included a detailed study of the following management regime options.

Version	Alternate Management Regimes
1	Public Sector Operation (As-is)
2	Public Sector Operation (As-improved)
3	Privatization
4	Joint Public-Private Partnership

In our prior report, we advised that the Public Sector option reflects maintaining PAG or other government agency control. Our updated analyses indicate that PAG remains the best Government of Guam agency to control the marinas. PAG includes trained, experienced staff, internal systems and good relationships with critical local and federal government agencies whose support is critical to the long-term success of Guam's marinas. We previously completed Public Sector Operation analyses under as-is (no change) and as-improved scenarios. The Privatization model assumes a complete transfer to a private entity. The joint Public-Private Partnership option was previously analyzed considering both for-profit and community based not-for-profit partnership scenarios.

For each management structure previously analyzed, we reviewed the status of marketing, and identified present and potential market sectors. We identified potential new services, amenities and facilities. We reviewed marina recommended operational policies and procedures as well as financial programs. Our financial program analysis included a detailed cash flow projection including public subsidy (operational loss on cash flow, exclusive of CAPEX) requirements and identification of alternate funding sources as previously detailed in our May 2011 report. Overall financial operations under any scenario require significant periodic capital expenditures, whether from storm damage repairs or from major repairs and replacement.

Based on our updated research and analyses completed, we recommend that the client pursue a combination of alternate management regimes including Public Sector As-Improved in the near term, with a mid-term review and possible transition to Public-Private Partnership. Although the Public-Private Partnership allows for a combination of public and private sector strengths, our updated analyses suggest that such a partnership should be explored only after internal management changes are implemented. A phased process will allow for a better understanding of operations that will support fair, transparent negotiations with a future private partner, if any.

Our previously recommended alternate management regime implementation strategy involved a multi-step process, as updated and further detailed herein, with the ultimate goal of entering into a Public-Private Partnership for management of Guam's marinas. Recent improvements to the marinas have reflected positively on PAG management, and marina users are now generally satisfied. If additional changes in management are implemented, and the Governor's office continues to support Guam's marinas, the Public Sector Operation as improved may reflect the best long term management. In this even ae Public Private Partnership may not be needed.

In order to prepare for a future analysis of the Public Private Partnership option, we recommend the following marina operational changes.

Maintenance and Repair

- Commitment to maintain & improve marinas
- Complete Agat Dock "B" replacement (consider 40 and 60 foot slip options based on user demand)
- Complete health and safety required repairs (Harbor of Refuge moorings, bathrooms, fueling in Agat, siltation issues, navigation, fire suppression and security)
- Review and improve operational layout of marinas including Loading Zones and parking management

Financial

- Modify accounting to include separate marina cost accounting
- Complete cost accounting and determine actual level of marina subsidy
- Include marina capital expenditure planning in CIP budgeting
- Waive GFD and GPD fair rent and utility costs (if necessary) in exchange for security presence
- Utilities and costs (determine if existing rates cover costs)

Management

- Recognize marinas as business unit
- Revise Commercial Manager Job Description to include separate line item for marinas
- Analyze Master Plan for GDP – commit to completion or amend as necessary
- Plan to complete future phases of GDP Marina portion of the Paseo de Susana Master Plan.
- Expand Grant writing program for Guam marinas
- ID and secure additional grant funding (NOAA etc.)
- Request US DOI to designate PAG as recipient for majority (or all) of DJ Sport Fish grant for use in improving and maintaining Guam's marinas
- Fill Marina Manager position
- Allow Commercial Division flexibility to solve marina problems and complete repairs quickly
- Plan periodic user and community outreach/update meetings
- Coordinate with federal and local partners to obtain dredging approvals and seek funding
- Adopt best practices program
- Review and update compliance with 2008 Master Plan or propose amendments

Alternate Management Analyses Overview (May 2011 Study)

Considering the importance of focusing on its core mission and other factors, PAG previously studied the viability of alternate management regimes for Guam's marinas. In order to complete alternate management regime analyses for the client, we completed detailed research regarding marina management and alternate management regimes through the U.S. We completed interviews with existing management and marina users. We studied national marina market data, obtained specialized marina industry materials, and identified alternate management regimes. We completed SWOT (strengths, weaknesses, opportunities, and threats) analyses including a detailed evaluation of operations and management, including an identification of short and long term problems categorized as follows.

- Management Structure and Programs
- Operational Facility Costs and Fees
- Role and Opportunities of Marinas
- Repair Strategy

In addition to SWOT analyses, we previously completed cash flow projections under the alternate management regimes studied. The cash flow projections were somewhat preliminary in nature due to uncertain future income and expenses, but reflected the importance of long-term planning. Cash flow models excluded provisions for capital expenditures which were reviewed under the Repair Strategy section of our May 2011 report. Updated cash flow analyses were beyond the scope for this study. Further details regarding our analyses by component are included as follows.

Management Structure and Programs – We previously evaluated the following management structure and program alternatives.

Version	Alternate Management Regimes
1	Public Sector Operation (As-is)
2	Public Sector Operation (As-improved)
3	Privatization
4	Joint Public-Private Partnership

Operational Facility Costs and Fees – We previously completed an overview of existing accounting practices as well as available historic income and expenses. We reviewed and compiled possible budget and cost accounting systems including the identification of potential areas of cost savings. Since 2011 over \$5.1 million has been spent to upgrade Guam's marinas. We completed a detailed review of fees and charges, as well as recommendations for revision in our October 2016 marina fee recommendations report. No changes in accounting practices have occurred since our prior report. The Client reports that operations reflect break even financials, but such analyses include limited expense allocations. We recommend marina fee adjustments in our October 2016 report.

Role and Operations of Marinas – Our prior analysis of alternate management regimes study included a detailed overview of the role and operations of marinas. We reviewed the nature of marina operations and the framework for analysis of this unique real estate asset. Our study included a general overview of the economic contribution of marinas. To the extent practicable, we reviewed the attitudes of marina users regarding the preservation of traditional and cultural uses of marine resources. We further reviewed marinas as a public and social resource as well as the regulatory and safety support role of marinas. Our overview of marinas included commenting on resource management and utilization. No significant changes have occurred in this sector since 2011. However, the marina repairs completed since 2012 have resulted in a significantly enhanced user experience, particularly with commercial tenant customers.

Repair Strategy – Our previously completed repair strategy study identified deficiencies in the condition of Guam's marinas including public health and safety issues and facility infrastructure repair. Our repairs strategy analysis included slips, docks, utilities, navigational issues and other components of Guam's marinas as well as preliminary estimated costs of repair. We completed a final update for Repair Strategy (PUC Order PAG 11-01) in October 2012. The \$5.1± in upgrades completed since 2012 has significantly improved Guam's marinas. However, additional capital expenditures, such as Dock B in Agat, remain pending.

Version 1 – Public Sector Operation (As-Is)

Our prior analysis of the Public Sector operations management option included both as-is and as-improved components. As-is assumes that the management structure and programs currently in place would continue with nominal changes. Effectively, this represents the “No Action” option available to the client. The management structure and programs existing prior to 2012 resulted in the poor condition of the marinas (as well as the study of alternate management options). It was widely agreed among management, users and partners that improvements in these existing as-is operations were necessary. Our prior SWOT analysis detailed the significant problems with prior, as-is operations. Major marina improvements were completed between 2012 and 2016, but no other changes have occurred.

A summary of our updated SWOT analysis for the as-is Public Sector operation model, which reflects the significant improvements since 2012, is included on the following page. The advantages of as-is public sector operation include substantially improved facilities, a strong organizational flow, defined responsibilities, resource accessibility, leadership strength, and information dissemination. Existing as-is operations also benefit from user group input, user affordability, and grant writing resources. PAG has been successful in keeping the marina environment open to all users including free boat ramp access, free parking, free wash down area and upgraded amenities. PAG management now has recognized the importance of correcting health and safety issues and improving repairs and maintenance.

The disadvantages of as-is Public Sector operation include inadequate marina specific training, not marina user friendly, limited oversight and accountability, no goals and planning, possible safety and security risks, few marina programs, and limited marina amenities and services. Additional disadvantages include limited access to historic data, weak budgetary ability, no cost accounting solutions, limited financial transparency, no marina specific reporting standards, and no on-site management of marinas. As-is operations previously resulted in an embarrassing gateway connecting locals and tourists with Guam's vast oceanic resources. The recently completed improvements reflect a significant first step in a possible transformation of these assets into showcase properties. Opportunities remain, but these require a change in operations to accomplish. The primary threat of continuing as-is operations involves another decline in the condition of marinas along with a contraction in resource availability. Additional issues considered are detailed on the table.

Preliminary projected cash flows (exclusive of CAPEX) under the as-is Public Sector scenario were included in our prior study. The as-is operations ignore potential market sectors as well as potential new services, facilities and amenities. There was previously a general lack of satisfaction among users regarding as-is operations. Due to recent repairs, users are now generally satisfied with marina operations. Overall, the as-is Public Sector as-is operation framework was ranked as a less desirable option regarding alternate management regimes analyzed.

ANALYSIS OF ALTERNATE MANAGEMENT REGIMES - UPDATED DECEMBER 2016			
Guam's Marinas			
Existing Public Sector Management (As-Is) Option - SWOT Analysis			
Strength(s)	Weaknesses	Opportunities (As-Improved)	Threats
<u>Management Structure and Programs</u>			
Organizational Flow	Inadequate Marina Specific Training	Lack of Marina Specific Training	
Defined Responsibilities	Not Marina User Friendly	Resource Contraction	
Resource Accessibility	Limited Oversight and Accountability	Conflict with Users	
Leadership Strength	Lack of Goals and Planning	Decreased Oversight and Accountability	
Information Dissemination	Safety and Security Risks	Limited Planning	
	Few Marina Programs	Continued Safety and Security Threats	
	Limited Marina Amenities and Services		
<u>Operational/Facility Costs and Fees</u>			
User Group Input	Limited Access to Historic Data	No Reserves Funding	
User Affordability	Weak Budgetary Ability	Increasing Level of Subsidization	
Grant Writing Resources	No Cost Accounting Solutions	Lost Potential Additional Revenue Flows	
	Limited Financial Transparency	Decreased User Affordability	
	No Reporting Standards		
	No On Site Management of Marinas		
<u>Role and Opportunities of Marinas</u>			
Opens Marina Environment	Improved Gateway Connecting Land and Sea	Embarrassing to Visitors If Condition Declines	
- Fishermen	Limited Amenities and Services Offered	Safety Concerns	
- Boating enthusiasts	Limited Cultural Preservation and Development	Public Loses Interest	
- Tourists	Implementation of Master Plan		
	Trophy Asset or Eyesore		
	No Marketing		
	Weak Public Awareness		
<u>Repair Strategy</u>			
Health and Safety Recognition	Haphazardly Identified and Prioritized	Professional Study Demands and Delays	
Grant Writing and Partnerships	Periodic Funding	Dredging and Hazardous Material Issues	
	Limited Cost Awareness	Disaster Preparedness/Prevention	
	Bureaucratic delays		
	User Input and Coordination		
	Planning and Reserves		

Version 2 – Public Sector Operation (As-Improved)

As previously noted, the existing Public Sector management has benefits including vastly improved facilities since 2012, established relationships with other government entities, experienced staff and other advantages. This is critical considering the identified need to continue and expand the grant writing programs to solicit funding for additional required marina upgrades including possible dredging, GDP expansion, fuel pier and other possible projects. PAG relationships are considered critical to increasing federal grant funding for Guam marina upgrades. Therefore, we completed an as-improved analysis assuming continued Public Sector operations, but with the following improvements.

- Marina Management Support
- Improved Security
- Cost Accounting Established
- Marina Manager Hired
- Funding for Repairs Adequate
- Short Term Repairs Completed
- Long Term Repair and Improvement Plan

Our prior analysis under this as-improved Public Sector management scenario recognized that significant improvements under the PAG management team were possible. Indeed, over \$5.1 million in improvements have been completed since 2012. The advantages of public sector as-improved operations include all of the as-is strengths, plus opportunities such as improved training, new resource options, improved user friendliness, improved oversight and accountability, goals and planning, safety and security solutions, enhanced marina programs, and enhanced marina amenities and services. Additional advantages include improved budgetary ability, improved cost accounting, improved transparency, improved reporting standards, procurement improvements, on-site management of marinas, and improved grant writing resources. However, one of these advantages can be realized without a shift in existing management of the marinas.

The disadvantages of public sector as-improved operations include the lack of marina specific training, management/administration turnover, potential resource contraction, limited oversight and accountability, and possible safety and security threats. Additional disadvantages include no reserves funding, and potential for lost additional revenue flows.

Projected cash flows under this scenario were included in our prior study. Identified profits under all cash flow scenarios could be utilized to establish a sinking fund for future major repairs. Considering the need for a percentage of PAG matched funding of grants, a marina sinking fund would potentially eliminate future grant losses.

The as-improved operations would likely recognize potential market sectors as well as potential new services, facilities and amenities because a competent Marina Manager would work to achieve these goals, with support of PAG. Overall, the public sector as-improved operation framework was considered as critical to the long-term needs of the client. Successful improved operations under PAG could support a fair, transparent transition to an alternate PPP management regime in the mid-term, if such future analyses suggest that PPP is the most desired option. It is unclear if such a transition to PPP operations will be desired in the future. PAG has already proved that it can monitor and improve Guam's marinas. As improved, the Public Sector Operation is concluded to reflect the best possible near term management regime for Guam's marinas. If recommended changes are implemented, it will be possible to complete a detailed PPP study, if such future analyses are desired by the client.

Version 3 – Privatization

The opposite of a Public Sector management regime involves privatization. Privatization can be defined as the transfer of responsibility for selected PAG marina management functions from PAG to a private party or entity by contract, lease, or other formal agreement. Delegation to the private sector allows the need for a service to be decoupled from the actual production. Privatization may allow a government agency to focus on its core objectives and it may offer an opportunity to inject expertise and/or capital from the private sector into a public project. Private entities are not subject to public agency limitations such as enabling legislation, mandates, or other regulations and are therefore frequently more innovative, flexible and/or efficient.

During the mid-2000s, there was a growing trend involving the conversion of public marinas to private ownership. The most common reasons cited for public marina conversion to private ownership, according to one study, included:

- Public officials looking for alternate ways to get better service at lower cost
- Public officials concerned that government money for boaters has largely disappeared
- Expensive to maintain and modernize facilities
- Government agencies tend to be weak on maintenance budgets
- Marinas not public service, but hospitality business that caters to and serves customers
- Conflicts between need for staff vs. government holidays (marinas are busiest during holidays)

As noted in our prior study, concerns regarding privatization of public assets in general include both ideological and practical issues. Ideological opposition is grounded in the conviction that the operation and management of public assets such as marinas is a core function of government. Practical concerns with privatization include a lack of relevant models from other jurisdictions, the loss of quality control and flexibility, and indirect transaction costs that may be overwhelming or unaccounted for. Further, a potentially successful privatization effort may be undermined by poor public sector management. Increasing the success rate of privatization, according to a Rockefeller Center at Dartmouth College study, includes precision, ease of measurement and evaluation, high level of competition among potential providers, distance from agency's core mission, variable demand for services, ease of hiring and firing, and private providers economies of scale benefits.

We continued to analyze alternate management regimes for Guam's marinas assuming a privatization model. Privatization would include a near total transfer of ownership and control to a private entity, which would operate the facilities in a manner designed to maximize profit. Privatization, for analysis purposes herein, is assumed in a manner that does not violate deed restrictions that would result in reversion to the federal government, and further would occur in conjunction with all local regulations and laws (as-is or revised as necessary).

A summary of our updated SWOT analysis for the privatization model is included on the following page. The advantages of privatization include organizational flow, defined responsibilities, adequate marina specific training, marina user friendly by design, defined goals with planning, safety and security prioritized, marina programs expanded, marina amenities and services expanded, and information dissemination requirements. The disadvantages of privatization include loss of government control, unknown CAPEX issues, limited competition, uniqueness of Guam's marinas, resource accessibility may suffer, leadership strength unknown, and pressure to increase fees. Additional details are included on the table and reflect various opportunities and threats associated with this model.

A cash flow projection for the privatization model was included in our prior report. The privatization model reflected that Guam's marinas have the potential to generate over \$500,000 annually in profits, before CAPEX. Such profits could justify a loan of up to \$10.0 million, which reflects the total approximate capital expenditure requirements. The Privatization model could be utilized to sell off the marina assets to private control. However, these privatization analyses assume significantly higher user fees.

Although cash flow projections are attractive under a privatization scenario, it is unlikely that a privatization program could be successful on Guam. The boating community is active and would not likely support a program that requires significant fee increases and a loss of control. Public access and reasonable fees would both be at risk under a privatization framework. There are no existing private marina operators with experience on Guam. A privatization effort would likely require revisions to the Master Plan and inclusion of the GFCA. Overall, the privatization framework was ranked as the least desirable option regarding alternate management regimes.

ANALYSIS OF ALTERNATE MANAGEMENT REGIMES - UPDATED DECEMBER 2016			
Guam's Marinas			
Privatization Option - SWOT Analysis			
Strength	Weaknesses	Opportunities	Threats
Management Structure and Programs			
Organizational Flow	Limited Competition for Control	Showcase Guam's Marinas	Loss of PAG Input
Defined Responsibilities	Uniqueness of Guam's Marinas	Marina Specific Training Programs	Resource Accessibility Issues
Adequate Marina Specific Training	Resource Accessibility May Suffer	Improved Goals with Planning	Marina's Not Friendly to Select Users
Marina User Friendly by Design	Leadership Strength Unknown	Improved Marina Programs	Oversight and Accountability of Private Firm
Defined Goals with Planning	Pressure to Increase Fees	Improved Marina Amenities and Services	Assimilation of Leadership
Safety and Security Prioritized		Improved Information Dissemination	
Marina Programs Expanded			
Marina Amenities and Services Expanded			
Information Dissemination Requirement			
Operational Facility Costs and Fees			
Access to Historic Data (if required)	Cost Accounting Solutions Limited	Improved Access to Historic Data	Cost Accounting Solutions Unknown
Budgetary Ability	Reserves Funding Issues	Improved Budgetary Ability	User Group Input Unknown
Financial Transparency	Level of Subsidization in Future	Improved Financial Transparency	Reserves Funding Requirements Followed
Financial Reporting Standards	User Affordability Issues	Improved Financial Reporting Standards	Level of Subsidization
Procurement	Grant Writing Obsolete	Procurement (Privatized)	User Affordability
On Site Management of Marinas	Guaranteed Returns	Potential Additional Revenue Flows	Grant Writing and Funding Losses?
User Group Input			
Potential Additional Revenue Flows			
Role and Opportunities of Marinas			
Gateway Connecting Land and Sea	Implementation of Master Plan	Marina Environment Accessibility	
Amenities and Services Offered	Improved Amenities and Services Offered	- Fishermen	
Opens marina environment	Cultural Preservation and Development	- Tourists	
- Boating enthusiasts	Improved Marketing	Cultural Preservation and Development	
Trophy Asset for New Owner	Improved User Friendly	Implementation of Master Plan	
Marketing Maximized	Improved Reporting Standards	User Friendly - Long Term Issues	
User Friendly Enhances Profits	Improved Personnel Dynamics	Reporting Standards Enforcement	
Reporting Standards Established		Personnel Dynamics on Island	
Repair Strategy			
Health and Safety Recognized	Adequately Identified and Prioritized	Funding Levels Maintained	
Adequately Identified and Prioritized	Bureaucratic Delays Avoided	Professional Study Demands and Delays	
Bureaucratic Delays Limited	PMC Style of Procurement	User Input and Coordination Questions	
Planning Required	Planning Leads to Improvements	Dredging and Hazardous Material Issues	
		Grant Writing and Partnerships Contribution	
		Disaster Preparedness/Prevention	

Note: Assumes privatization process would include documentation to insure adequate protection provisions and targets, reporting requirements.

Version 4 – Public-Private Partnership

A Public-Private Partnership through a Performance Management Contract (“PMC”) is authorized for Guam marinas under the law as detailed in our prior report. Public-private partnerships may take on various forms and include either for-profit private partners or not-for-profit community-based partnerships. PAG may enter into a partnership with a private firm or community group. The partnership would be designed to capitalize on each party’s strength.

Public-private partnerships are formed as equal or unequal partnerships. Ideally, the development of a unique partnership would improve all aspects of Guam’s marina facilities and reduce the need for long-term subsidies by increasing efficiency of operations and providing users with the services they require, opening additional revenue streams. A successful partnership would eliminate the procurement issues that handicap existing management, and could insure that the shorelines are maintained and enhanced, while protecting public access and maintaining cultural preservation.

A public-private partnership would allow PAG to focus on its core mission. Under a hypothetical agreement, PAG would likely retain its position as the party responsible for capital expenditures and long-term planning including plans to complete the GDP Marina master plan. This allows the marinas to benefit from PAG’s government relationships and grant writing abilities. Under this scenario, the private entity would assume responsibility for day to day management, accounting, application processing, general repairs and maintenance, personnel and reporting.

A successful public-private partnership would allow for the redeveloping of under-utilized, highly valuable land to generate economic activity and create a positive economic impact to the island by creating employment opportunities. Once federal and local funds are committed for major upgrades, the private partner could obtain access to bank loans that would enable new development projects to move forward. Such projects could include a waterfront restaurant, and other facilities.

The GFCA previously proposed, as part of its proposed Fishery Economic Development Plan, a Marina Authority to revitalize the Agat Marina and expand the GDP Marina under a public-private partnership, including community based oversight councils to manage the marinas. Although GFCA may ultimately be selected as the best private partner for PAG, it is important to implement the as improved recommendations and review private partner alternatives before reaching a conclusion. It will be difficult to complete such a study unless the recommended as improved changes in management are implemented.

Overall, successful public-private partnerships allow for increased efficiency from the public and private sector partners. The public entity is allowed to focus on its core mission and maintain its oversight over capital expenditures and long-term planning. The private entity would ideally bring marina management experience to the partnership in order to capitalize on existing staff training programs, financial reporting and maintenance oversight strengths.

For public private partnerships to succeed, various hurdles must be crossed. We are aware of successful public private partnerships for massive real estate redevelopment projects that included:

- Public Outreach
- Public Vote
- Private (not public) control of process
- Master Plan
- Attracting other Related Investors
- Luck
- Comprehensive Memorandum of Understanding

Public-private partnerships, in order to succeed, must separate politics from profits. The public and private entities must have a common agenda (win-win). It is essential to define the decision making process and authority. The partners must have common risk/reward priorities. Finally, the partners must carefully define the public benefit, and regularly report progress to the public.

The major challenge in this process involves identification of the private partner. For profit firms ultimately seek to maximize profits, potentially at the expense of PAG and marina users. Guam is unique and for-profit firms may not understand special local circumstances, inclusive of public access, traditional fishing rights and other issues not typically experienced by mainland marina operators.

While numerous community based groups participate in the use of Guam's marinas, the GFCA is especially well suited to partner with PAG in the management of Guam's marinas. Members of GFCA are experienced with marina operations and use of vessels, including needs, servicing, safety, repairs and other important factors. A partnership with GFCA, if both parties agreed, could capitalize on the strengths of both PAG and Guam's boating community experts. However, considering that previously recommended management changes were not implemented, it appears premature to move toward a partnership in the near term. It remains important to consider that there may be parties other than GFCA that can offer marina management services in partnership with PAG.

A summary of our updated SWOT analysis reflecting the community-based not-for-profit Public-Private partnership model is included on the following page. The advantages of a successful community-based Public-Private partnership operations include: PAG maintains core focus, partner is expert in marina operations, organizational flow, defined responsibilities, adequate marina specific training, resource accessibility, marina user friendly, oversight and accountability, defined goals with planning, safety and security prioritized, leadership strength, improved marina programs amenities and services, and information dissemination.

The disadvantages of community-based operations include: lack of competition for partner, difficult to define the relationship, PAG maintains significant on-going CAPEX cost responsibilities, defined responsibilities, oversight and accountability, and leadership strength. If PAG improves its current marina management operations, many of the disadvantages associated with this partnership can be eliminated. Based on our analyses, a phased approach into a Public-Private partnership reflects an important alternative management regime option for the client. However, certain management changes are necessary in order to complete an adequate PPP study.

The projected cash flow model under this alternate management regime was included in our prior report. Although many estimates are preliminary in nature, the model reflects potential profits of nearly \$200,000 per year by Year 3, prior to CAPEX costs. Profits (split 50/50 under an equal partnership scenario) could be utilized to establish a sinking fund for major expenses.

Overall, the Public-Private Partnership framework was concluded as an important mid-term alternate management regime option for Guam's marinas. However, the client is advised to complete the recommended internal changes prior to completing more detailed analyses that would allow soliciting for a private partner. Pushing forward too quickly to change management, before PAG has the opportunity to improve, could negatively impact negotiations and possibly result in liability issues for the client. A phased approach ideally results in a fair, transparent change in management for Guam's marinas. However, it remains unclear if the PPP is the best option for Guam's marina management.

ANALYSIS OF ALTERNATE MANAGEMENT REGIMES - UPDATED DECEMBER 2016
Guam's Marinas
Joint Public-Private Partnership Option - SWOT Analysis

	Strength	Weaknesses	Opportunities	Threats
Management Structure and Programs	PAG Maintains Core Focus Expert in Marina Ops Hired Organizational Flow Defined Responsibilities Adequate Marina Specific Training Resource Accessibility Marina User Friendly Oversight and Accountability Defined Goals with Planning Safety and Security Prioritized Leadership Strength Marina Programs Marina Amenities and Services Information Dissemination	Lack of Competition for Partner Difficult to Define Relationship PAG Maintains CapEx Defined Responsibilities Oversight and Accountability Leadership Strength Marina User Friendly Oversight and Accountability Defined Goals with Planning Safety and Security Prioritized Leadership Strength Marina Programs Marina Amenities and Services Information Dissemination	Long Term Relationship Quality Management Quality Maintenance Defined Responsibilities Adequate Marina Specific Training Resource Accessibility Marina User Friendly Defined Goals with Planning Safety and Security Prioritized Marina Programs Marina Amenities and Services Information Dissemination	Inexperienced Partner Fails to Perform Poor Personnel/Conflicts Local Users Fails to Understand Guam Uniqueness Subsidy Allocation CapEx Needs Relaxed Impact on Master Plan Organizational Flow Oversight and Accountability Leadership Strength
Operational Facility Costs and Fees	Access to Historic Data Budgetary Ability Cost Accounting Solutions Financial Transparency Financial Reporting Standards Procurement On Site Management of Marinas Potential Additional Revenue Flows	Complex Relationship Structure User Group Input Reserves Funding Level of Subsidization	Cost Accounting Solutions Financial Transparency Financial Reporting Standards Procurement On Site Management of Marinas Potential Additional Revenue Flows	Follow Up and Oversight Reserves Funding Level of Subsidization User Affordability Grant Writing
Role and Opportunities of Marinas	Amenities and Services Offered Trophy Asset or Eyesore Marketing User Friendly Reporting Standards	Implementation of Master Plan	Gateway Connecting Land and Sea Opens Marina Environment - Fishermen - Boating enthusiasts - Tourists Cultural Preservation and Development Personnel Dynamics	Amenities and Services Offered Implementation of Master Plan Personnel Dynamics
Repair Strategy	Health and Safety Recognized Adequately Identified and Prioritized Adequately Funded User Input and Coordination Planning Disaster Preparedness/Prevention	Professional Study Demands and Delays Cost Awareness Bureaucratic Delays Dredging and Hazardous Material Issues Grant Writing and Partnerships	Professional Study Demands and Delays Cost Awareness Bureaucratic Delays Dredging and Hazardous Material Issues Grant Writing and Partnerships	Professional Study Demands and Delays Cost Awareness Bureaucratic Delays Dredging and Hazardous Material Issues Grant Writing and Partnerships

Conclusions and Recommended Implementation Study

Overall, we recommend that the client maintain existing operations, implement improvements to internal management, and prepare for a future analysis of the Public-Private Partnership option. The Public Sector As-Improved option, once completed, will allow for a well-supported analysis of the PPP options. The Public-Private Partnership model of management allows for a combination of strengths from both PAG and the private entity selected. However, it remains unclear if such a partner can be identified.

We developed a framework for the recommended alternate management regime implementation process. This framework includes risk mitigation considerations as well as near-term, mid-term and long-term recommendations. The client is advised to study and identify unknown factors that would impact possible future PPP matters including:

- Dredging Issues
- Future CAPEX
- Increased Fees Potential
- Framework for PPP
- Typhoon risk mitigation (GDP Marina piles?)

Our Alternate Management Regime Implementation Plan includes suggestions that the client incorporate into this process. This framework could be modified based on PAG priorities and commitment to change. Our framework summary is detailed as follows.

Near Term Recommendations

- Continue with commitment to maintain & improve marinas
- Fund health and safety required repairs
- Recognize marinas as business unit
- Modify accounting to include separate marina cost accounting (including allocations for hidden costs)
- Complete cost accounting and determine actual level of marina subsidy
- Revise Commercial Manager Job Description to include separate line item for marinas
- Analyze Master Plan for GDP – commit to completion or revise as necessary
- Plan to complete Phase II of GDP Marina portion of the Paseo de Susana Master Plan within specific time frame
- Expand Grant writing program for Guam marinas
- ID and secure additional grant funding
- Request US DOI to designate PAG as recipient for majority (or all) of DJ Sport Fish grant for use in improving and maintaining Guam's marinas
- Hire Marina Manager

- Allow Commercial Division flexibility to solve marina problems and complete repairs
- Monitor commercial (tourist) use of marinas and possibly implement user fee.
- Plan user and community outreach/update meetings if necessary
- Coordinate with federal and local partners to obtain dredging approvals and seek funding
- Charge GFD and GPD fair rent and utility costs if applicable
- Analyze utilities and costs for possible additional savings
- Maintain user confidence in PAG management and seek additional user input
- Adopt best practices program
- Review and improve operational layout of marinas including Loading Zones and parking management
- Review and update compliance with 2008 Master Plan

Mid-Term Recommendations

- Determine if PAG is interested in PPP. If yes,
- Study successful PPP marina models
- Identify specific goals of PPP
- ID Partner requirements
- Determine allocation of partnership (Equal?)
- Solicit input via RFI
- Detail PAG CAPEX Commitments
- Determine required insurance cost allocation/reimbursement
- Complete AAA process and revise fees including possible commercial user fee (and exemptions)
- Analyze potential loan guaranty commitment for partner to allow additional development, if desired
- Develop short list of potential partners
- Develop controls for oversight of partner
- Develop PPP RFP Materials
- Review and update compliance with 2008 Master Plan

Long-Term Recommendations (if PPP is pursued)

- Solicit interest from potential partners
- Negotiate agreement
- Transition operations
- Regular reporting and oversight
- Public and user outreach

- PAG manages CAPEX and long term development
- Partner manages operations
- Review and update compliance with 2008 Master Plan

Details regarding our research and analyses are contained in the body of this report. An Executive Summary is contained in a following section. W. Nicholas Captain, CRE has completed numerous consulting reports regarding port and/or harbor front properties on Guam and Hawaii and has further experience with wharfage fee structures in the Republic of Palau. He completed significant research into the subject operations as well as marina management options for purposes of this and our prior reports. He is competent to complete this updated consulting report.

The undersigned hereby certifies that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct;
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
- I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved;
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment; our engagement in this assignment was not contingent upon developing or reporting predetermined results;
- we have not provided prior consulting assistance to the client regarding the subject properties;
- our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined conclusion that favors the cause of the client, the attainment of stipulated results, or the occurrence of a subsequent event directly related to the intended use of this report;
- this report is subject to the Code of Professional Ethics of The Counselors of Real Estate;
- I made prior personal inspections of the subject properties;
- no one provided real property consulting assistance to the person signing this report.

Ms. Joanne Brown
December 16, 2016
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Thank you for the opportunity to complete this marina management consulting assignment for you. We sincerely appreciate the support we received from your Commercial Division in completing this study. We appreciate your patience in the delivery of this report, which was delayed due to various circumstances that were beyond our control.

Sincerely,

CAPTAIN & ASSOCIATES



W. Nicholas Captain, CRE
President

WNC/mp