

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6b

Date of Meeting August 23, 2011

DATE: August 15, 2011

TO: Tay Yoshitani, Chief Executive Officer

FROM: Melinda Miller, Director, Portfolio Management
Patricia Spangler, Real Estate Manager

SUBJECT: Proposed New Comprehensive Conference and Event Centers Management Agreement

ACTION REQUESTED:

Request Port Commission authorization for the Chief Executive Officer to execute a Management Agreement substantially as described in this memorandum for the Port's Conference and Event Centers (Bell Harbor International Conference Center, World Trade Center Seattle, Bell Street Cruise Terminal, Smith Cove Event Center and Maritime Event Center).

SYNOPSIS:

Staff proposes execution of a new management agreement covering the Port's Conference and Event Centers. The proposed new contract will include all of the Seattle waterfront facilities presently being used for meetings and events. These are the Bell Harbor International Conference Center (BHICC), the Bell Street Pier Cruise Terminal, The World Trade Center Seattle (WTCS), Smith Cove Event Center (part of the Smith Cove Cruise Terminal) and the Maritime Event Center (MEC). Collectively, these facilities are referred to as the "Conference and Event Centers." The agreements currently covering these premises all expire May 31, 2012.

Bell Harbor International Conference Center was an integral piece of the Central Waterfront Development Project. In the 1990s, the Port desired to maximize utilization of its central waterfront assets that were no longer needed for the core mission of cargo movement and to leverage its unique role by using patient capital to catalyze private development. This effort was driven by the Port's primary mission of using public resources to advance international trade and commerce, stimulate economic development and to create public access to the waterfront.

The Port's Conference and Event Centers generate substantial economic benefit for the Port, King County and the region and are important to nearby Port tenants and neighboring businesses. Generating \$48,449,204 in gross revenues to the Port over the past five years, the facilities have contributed between \$1 million and \$2.2 million, depending on the year, to the Real Estate Division's Net Operating Income. According to the 2009 Economic Impact report prepared by Martin Associates, 3,521 direct, indirect and induced jobs are associated with the Port's properties along the waterfront, and these businesses paid over \$15.6 million in local and state taxes. While not all of this impact is directly associated with the Conference and Event Centers, a significant part of the jobs and revenues are.

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The Conference and Event Centers are valuable assets to the Port and their continued use for conferences, meetings, and special events is the most effective use of the facilities to generate revenue and provide permanent and part-time jobs year round. In addition, the events generate revenue to other Port tenants and customers, such as the Bell Street Pier Garage, Starbucks, Anthonys, the Bell Street Deli and other waterfront businesses, including the Marriott Waterfront Hotel. They also provide business opportunities and jobs for companies, both large and small, which are vendors for the events and conferences held in our facilities.

The management agreement (or contract) has been the preferred agreement structure governing the relationship between the Owner and the Manager in the hospitality industry for a number of years and seeks to align the interests of both parties. This instrument is utilized because it typically provides specificity regarding property operations, significant Ownership rights regarding financial oversight, and desirable termination rights.

FACILITIES TO BE INCLUDED IN THE MANAGEMENT AGREEMENT

Bell Harbor International Conference Center (BHICC)

BHICC helped revitalize Seattle's central waterfront after it opened in 1995 and continues to be a major catalyst for bringing visitors to the waterfront today. After a nationwide competitive process the Commission approved a management agreement with Columbia Hospitality, Inc (CHI) to manage the day-to-day operations.

BHICC aligns with the Port's mission to promote international trade and business. Over the past ten years, BHICC has hosted nearly one million attendees at its events. Luminaries, such as President Obama, former Secretary of State Madeline Albright and Microsoft co-founders Bill Gates and Paul Allen, have attended events. In addition, non-profit organizations such as Fare Start, Central District Forum for Art and Ideas, and PATH continue to use the facility. BHICC has been recognized around the world and in the local and regional markets as a premier conference facility.

Cruise Terminal Extension Premises

The contract approved by Commission in September 1995 included portions of the Bell Street Cruise Terminal, including the International Promenade, Elliott Hall, VIP room, and the Pier 66 apron, as "Extension Premises" that could be used from time-to-time so long as the use did not interfere with cruise operations. These Extension Premises are integral to maximizing use of the space during periods of non-cruise operations, providing additional area for conferences and events, and generating additional revenue to the Port.

World Trade Center Seattle (WTC Seattle)

The World Trade Center Seattle is located within the World Trade Center West Building, a multi-use facility consisting of office, retail, and a parking garage. In operation since 1998, it serves as a dynamic venue for international trade and business development opportunities and provides office, meeting, dining room, and event space.

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Maritime Event Center (MEC)

The Maritime Event Center, formerly occupied by the Odyssey Maritime Discovery Center, is used as an exclusive space under the current management agreement.

Smith Cove Event Center

The Smith Cove Event Center is the newest Port facility for holding events and has been marketed for events during non-cruise season since February 2010. As the venue becomes known, it is growing in popularity. It has been the location for the Cascade Bicycle Club's Seattle Bicycle Expo featuring 320 booths with exhibits for bikes, gear, travel and fitness for the past two years and will be used by them again in 2012. Nordstrom's Designer Preview used the facility in 2010 and 2011.

PROPOSED SELECTION PROCESS:

The Port currently contracts with CHI to manage BHICC, World Trade Center Seattle and the various Extension Premises under three separate management agreements. Port staff proposes to consolidate the three management agreements under one comprehensive management agreement collectively known as the Conference and Event Centers Management Agreement (CECMA). This agreement is to be negotiated with the successful proposer selected through a national, two-step Request for Qualifications/Request for Proposals process coordinated by the Port's Central Procurement Office. The RFQ/RFP approach was chosen to maximize competition among proposers and allow for the broadest opportunity for response by potential managers without a major investment of time and energy in the first phase (RFQ). After review of qualifications, a targeted cohort of managers will be invited to submit more extensive proposals. Those proposals will include marketing and staffing plans, management fee structure, and how best to utilize the Port's investments within the facilities.

Staff retained an outside consultant, the Conference Center Consulting Group, to assist in developing the content of RFQ/RFP. The consultant will also assist with RFP response evaluation, due diligence, and with the negotiations of the management agreement to make sure that the agreement reflects current industry standards, aligns the interests of the manager with the interests of the Port, allows flexibility and control for the Port, and protects and promotes the interests of the Port.

The hospitality industry normally governs the relationship between Owner and Manager through a management contract. This instrument is utilized because it typically provides specificity regarding property operations, significant Ownership rights regarding financial oversight, and desirable termination rights. Unlike a lease, which focuses on the use of premises, most management contracts provide detailed instructions regarding the actions of an Manager within the Owner's premises. While specific data is not available, our consultant is unaware of the use of leases to any substantive degree between hospitality asset owners and managers.

ADDITIONAL BACKGROUND:

Bell Harbor International Conference Center

BHICC is located on Pier 66 within a multi-use facility for office, retail, and a cruise terminal and was part of the revitalization of the Central Waterfront Project after it opened for business in October 1995. BHICC was developed as a premier conference and event center promoting the Port's economic,

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international trade and commerce, and tourism goals and has been recognized around the world and in the local and regional markets as a premier conference facility. It is also a popular venue for weddings and other private events. Its facilities are comprised of several meeting rooms, a 200-seat auditorium and a dining room. Since opening, BHICC has consistently returned positive net operating revenue to the Port and maintains its competitive marketing niche through excellent conference planning, aggressive marketing, and superior facilities with its unparalleled views of Elliott Bay and Mount Rainier.

Known for the high quality of its service, skillful management of conferences and events and technologically advanced communication and audio visual equipment, BHICC has partnered with several major hotels in Seattle and along the waterfront to promote the Seattle waterfront as its own visitor destination. By drawing groups to the waterfront, BHICC helps sustain many small and medium businesses in the area, such as Anthony's, and the Bell Street Deli. Several small businesses also are vendors at the BHICC.

BHICC has received many awards, including the International Association of Conference Center Code of Sustainability Award in 2009 for its environmental practices and for supporting the Port's green initiatives. BHICC has been a five-time recipient of the Successful Meetings Pinnacle Award which is considered the most prestigious symbol of excellence among conference centers in the country. Again in 2011, the Bell Harbor International Conference Center received the Pinnacle Award for a sixth time and was also named the best conference venue in Washington State by the readers of "Northwest Magazine."

World Trade Center Seattle

On November 22, 1994, the Commission approved the purchase of the World Trade Center Seattle license. The Port sought the license to assist the development of the Central Waterfront Development Project. The World Trade Center West Building was completed in 1998 and incorporated the World Trade Center Seattle. The WTCS serves as a dynamic venue for international trade and business development events in our region and currently has eighty sponsors that include large and small businesses with approximately 420 members. The manager is responsible for the day-to-day operations and marketing the facility for conferences, meetings and private events as well as being responsible for the sponsorship and membership sales.

Smith Cove Event Center

The Smith Cove Cruise Terminal at Pier 91 (Smith Cove Event Center) started operations in April 2009. In February 2010, the Commission approved CHI as the exclusive contractor to market and cater events at this two-story 145,000 square foot facility. There is no kitchen within the building so food preparation is primarily performed offsite and transported to the facility. The Smith Cove Cruise Terminal was incorporated into the BHICC management agreement as extension premises. This facility is under lease to Cruise Terminals of America (CTA). BHICC does not manage the day-to-day operations and is only responsible for marketing and selling space for conferences and events during the non-cruise season. The open layout of the floor plan creates a great venue for large trade shows, such as the Cascade Bicycle Club, as well as creating smaller more intimate settings for private events. This

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facility offers some of the most spectacular views of the city, Mount Rainer, the Cascades, and Elliott Bay.

Maritime Event Center

The Maritime Event Center at Pier 66 is located in the former premises of the Odyssey Maritime Discovery Center, which ceased operations on June 3, 2008. It consists of approximately 28,000 square feet of conference and exhibit space. After issuing an RFP to lease the space in 2008 and only receiving one proposal, the Port entered into a short-term lease agreement with CHI to manage the day-to-day operations. Working with maritime industry companies, CHI has implemented a sponsorship program for use of the MEC for non-profit events, and it is occasionally open to the public. This program is not supported with Port funds.

TERM PARAMETERS:

The proposed terms of the management agreement for the conference and event centers include:

- Term: Ten years with one ten-year renewal option with mutual acceptance and fee renegotiation.
- Management Fee: Total management fee to be negotiated between 4% to 7% of gross revenue. The management fees will be structured to align the interests of the manager with the Port. The generation of revenue and control of expenses will affect the management fees.
- Facilities: Bell Harbor International Conference Center, Bell Street Cruise Terminal, World Trade Center Seattle, the Smith Cove Cruise Terminal Building, and the Maritime Event Center.
- Option to Add Temporary Space: With Port approval, manager may propose temporary use of additional space for conferences, meetings, and special events for periods not to exceed ninety days.
- Option to Reduce Space: At the Port's discretion, space may be eliminated from the contracted facilities if needed for other Port business purposes.
- Port Investment for Improvements: Not to exceed Five Hundred Thousand dollars (\$500,000). A majority of the funds will be spent in the Maritime Event Center to install new carpet, new paint and install new hardware supporting exhibits. The allowance, however, is not limited to this work. Staff will negotiate other improvements as proposed by the selected manager.
- Manager's Employees: All personnel working at the Conference and Event Centers will be hired by the selected Manager and will be the Manager's employees.
- Expenses: The Port is responsible for all the expenses (e.g. staffing, insurance, janitorial, repairs/maintenance, and the purchase of equipment, furniture, fixtures, etc.) incurred in the operation of the Conference and Event Centers.
- Rebates/Discounts: All rebates and discounts will accrue to the Port.
- Related Party Transactions: Related party transactions require Port approval.

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- Termination: Port may terminate the manager for non-performance.
- Port events: Port reserves the right to use the Extension Premises for up to 25 Port sponsored events (twenty at Pier 66, five at SCCT) with reasonable notice to the manager.

FINANCIAL IMPLICATIONS:

The financial return generated from the Conference and Event Centers is highly dependent upon event activity, efficient management of operating expenses, and the structure of the management agreement.

- Event activity, and the revenue associated with such activity, is primarily a function of market conditions and the ability of the manager to acquire and retain new clients.
- The efficient management of operating expenses is dependent upon the ability of the manager to minimize the costs associated with events and the costs associated with maintaining the facilities to a high standard.
- Elements of the management agreement, such as the management fee and reimbursement of expenses, will have a significant impact on the financial performance of the facilities.

The chart below indicates the past performance of the facilities over the previous five years of operation. While this information can be used to formulate a general range of expected performance it should be noted that past performance is not indicative of future results. It should also be noted that the Smith Cove Event Center was not available prior to 2010 and is therefore not reflected in the numbers below prior to that date although bookings at the temporary facility at Terminal 30 were included.

Bell Harbor International Conference Center & World Trade Center - Seattle						
<i>Historical Performance (\$000's)</i>	2006	2007	2008	2009	2010	Average
Revenue	\$10,295	\$10,558	\$11,683	\$7,554	\$8,359	\$9,690
Operating Expenses (Excluding Mgmt Fee)	(\$7,710)	(\$7,463)	(\$8,351)	(\$6,031)	(\$6,506)	(\$7,212)
Management Fees	(\$968)	(\$1,020)	(\$1,105)	(\$507)	(\$533)	(\$827)
Net Operating Income	\$1,617	\$2,075	\$2,226	\$1,016	\$1,321	\$1,651

Staff is projecting that the initial costs associated with a new management agreement will be limited to improvements to the facilities to refresh or rebrand as necessary. As noted above, improvements are anticipated not to exceed \$500,000 based on the current condition and assumed use of the facilities. The specific list of improvements and their costs will be determined during negotiation of the management agreement.

ENVIRONMENT AND SUSTAINABILITY:

The selected manager of the Conference and Event Centers will work with Port staff and outside vendors as appropriate to create and implement programs that support the Port's green initiative and continue the current high standard of environmental responsibility. In January 2010, BHICC implemented a program to calculate its carbon footprint in an effort to become a more eco-friendly meeting and event destination. BHICC has reduced the carbon footprint of events and lessened its

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impact on the environment with such practices as composting food waste; recycling paper, plastic, aluminum, and glass; using compostable to-go containers; offering water stations rather than bottled water; using environmentally safe cleaning products; encouraging carpooling among event and meeting attendees; offering reusable nametags; as well as electronic, online documents instead of printed marketing materials.

STRATEGIC OBJECTIVES:

The proposed Conference and Event Centers Management Agreement supports the Port's strategies to ensure economic vitality by maximizing asset utilization of Port facilities and by achieving the maximum financial performance by hiring one manager to operate and provide marketing and sales for the facilities currently being used for conferences, meetings and special events.

Additionally, the activities associated with the World Trade Center Seattle support building relationships and partnerships to develop new business opportunities for the Port and local businesses to compete in the global economy. As part of the World Trade Center Association, The World Trade Center Seattle members are able to access the resources of the international educational and business services network of over 350 World Trade Centers in 93 countries.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

PowerPoint presentation

PREVIOUS COMMISSION ACTIONS AND BRIEFINGS:

August 9, 2011 – Commission was briefed on the proposed comprehensive Conference and Event Centers Management Agreement.