



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8b

ACTION ITEM

Date of Meeting March 26, 2019

DATE: March 19, 2019

TO: Stephen P. Metruck, Executive Director

FROM: Stephanie Jones Stebbins, Managing Director, Maritime Division
Mike McLaughlin, Director, Cruise Operations
Fred Chou, Capital Program Leader, Seaport Project Management

SUBJECT: New Cruise Terminal Design Phase Funding Request (CIP #C800582)

Amount of this request: \$5,600,000

Total estimated project cost to the Port: \$100,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to proceed with: (1) the design development and permitting phase (2) execute contracts for consultant support in this work and (3) prepare bid documents for the New Cruise Terminal Project at Terminal 46 for an estimated cost of \$5,600,000, in addition to the previously division-authorized amount of \$150,000. The total estimated project cost to the Port is \$100,000,000.

EXECUTIVE SUMMARY

A priority capital investment identified in the Maritime Division budget planning is the development of a new cruise terminal facility in Seattle. This new facility will be constructed at the north end of Terminal 46 on a site that will not exceed 29 acres. A single vessel berth capable of accommodating vessels with berth length of up to 1,500 feet, vessels up to 250,000 GRT, vessel draft restricted to minus 40 feet MLLW and unlimited air draft is envisioned along with a new passenger terminal building that can accommodate home port vessels with passenger capacity of at least 5000 passengers or greater.

This project supports the Century Agenda, through the strategy to “advance this region as a leading tourism destination” and the objective to “double the economic value of cruise traffic to Washington state.” At the Commission meeting on March 12, this project took its first significant step forward with the Commission’s adoption of the “Principles of Cruise Business Development” Motion.

During the capital planning for this future development, estimated at \$200 million, it was envisioned that this project would be delivered through a public-private partnership splitting the cost of investment, thus limiting the port’s funding for said development at \$100 million.

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The amount of the final investment will be further defined during the public-private partnership agreement negotiation phase of the Project. On March 13, staff released a Request for Qualifications (RFQ) to formally launch the process to secure a new partner.

With the upcoming decision of the Northwest Seaport Alliance (NWSA) regarding the Terminal 5 Modernization Program, the opportunity to move this new cruise terminal project forward will become feasible at Terminal 46 (T-46). Port staff, in collaboration with NWSA staff, developed very preliminary concepts for locating a new cruise terminal at this location. In addition, staff created a list of project elements the Port would be responsible for, beyond the delivery of a cruise passenger terminal building and passenger boarding systems/equipment, which are expected to be provided by a selected investment and operating partner. Design development must begin now to enable environmental review efforts to commence this fall and in parallel with selecting a new investment partner to meet the projected cruise market demand (and intended target date for completion) for a new terminal for the 2022 cruise season.

JUSTIFICATION

This request launches a priority capital project that will support our cruise business and ties into the financials around the Terminal 5 Modernization Program as well. The requested \$5.6 million is included in the Maritime Division's 2019 budget and is a piece of the broader estimate of \$100 million port costs for the project (which is 50 percent of the total estimated cost of \$200 million to complete the new cruise terminal project at T-46).

Our other two cruise terminals, providing three cruise berths in our harbor, will remain operational. Development of the new facility is being carefully considered as an interconnected piece of our harbor-wide cruise business.

Growth in Alaska will be driven mainly by the deployment of larger vessels into the region to replace smaller ships and increase capacity for key brands. New brands will be deployed to take advantage of new consumer sectors demanding Alaska sailings. To support growth the development of additional homeport facilities which can support larger vessels is required. The cruise industry is excited about this new opportunity and we expect robust competition in securing a partner for this project.

T-46 will remain a NWSA-managed property. The Port of Seattle will enter into an interlocal agreement with NWSA to manage 29 acres of the property to support the new cruise facility. The remainder of the acreage will remain under NWSA management and is intended for marine cargo use.

The timing for this action is critical to keep the project moving and to reach the targeted 2022 delivery date.

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DETAILS

With the aggressive intended target completion date for a new cruise terminal for the 2022 cruise season, the Port must initiate design and environmental review efforts in parallel with selection of an investment partner, while working closely with the NWSA to balance the needs of the parties and different uses across Terminal 46. Based on assessment of the Port's work components, it is estimated that the total design costs for the non-terminal building components would be approximately \$9.6 million. Out of those estimated design costs, \$5.6 million would need to be authorized for the initial design phase.

Examples of work covered under this initial design phase authorization include:

- Detailed utility infrastructure and apron structure assessments and comprehensive base mapping;
- Geotechnical investigations;
- Cruise fender systems
- Terminal ingress and egress/roadways design;
- Traffic and air quality analyses for environmental documentation and reviews; and
- Procurement, obligation and execution of large professional services contracts for preliminary and final design for project elements inclusive of offsite mitigations and long lead items for specialized systems such as electrical equipment for shore-power and substations.

A delayed start in getting early work underway would further challenge the tight schedule for the overall design development and permitting and the subsequent construction and implementation phases of the project, where some construction work can only be performed during allowable in-water work period and may require multi-year windows to complete. Upon the Commission's initial design funding approval, staff would proceed to procure consultant services to prepare construction documents and permits. Design of project components that can be performed by Port's in-house engineering team will be further explored.

On March 13, the Port began a parallel process to request qualifications and proposals to select an investment partner to develop the cruise terminal building and associated passenger boarding systems/equipment. The "Principles of Cruise Business Development," adopted by the Commission at the March 12 meeting, will be used to guide the selection of the investment and operating partner (among other criteria).

Staff anticipates returning to the Commission for authorization to execute a lease agreement with the partner and seek remaining design phase funding after design has progressed further, and roles and responsibilities between the Port and the partner have been fully defined.

Diversity in Contracting

The new cruise terminal project staff is coordinating with the Diversity in Contracting Department to develop the appropriate women-and minority-owned business enterprise

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(WMBE) aspirational goals for our design contract and to include in the private-partnership agreement.

Environmental Sustainability

As stated in the recently adopted cruise principles motion, the Port is committed to incorporating leading edge environmental stewardship and sustainability practices and facilities that can exceed existing regulations into the new facility. The project design team will consider and incorporate low impact development design features to the extent feasible. Design aspects for both the buildings and infrastructure will consider and evaluate sustainable elements such as (but not necessarily limited to):

- Innovative (green) stormwater management,
- High efficiency plumbing fixtures,
- Energy efficient lighting,
- Passive and/or high efficiency heating/cooling,
- Use of recycled materials,
- Construction waste landfill diversion,
- Low- or zero-emitting paints and other materials,
- Light pollution reduction,
- Storage and collection of recyclables,
- Water efficient development and landscaping,
- Accommodations for alternative transportation,
- Integrated community connectivity,
- Public access, and
- Habitat enhancement.

Due consideration will be given to meet the Port’s Century agenda goals to be carbon neutral or carbon negative by 2050, including installation of shore-power infrastructure for vessels to plug in to while at berth, transportation demand management systems, and on-site energy generation (such as solar panels). Tenant use of this facility will require compliance with all applicable local, state, federal, and international laws.

Scope of Work

Work will include the design of improvements necessary to support the collective cruise terminal facility development, with the cruise passenger terminal building and passenger boarding systems/equipment to be provided by a selected investment partner. These project components, which the Port anticipates leading may include, but are not limited to, the following:

- (1) Terminal entry improvements both on Port and public right-of-way
- (2) On-site and off-site mitigation, including environmental and shoreline mitigation

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- (3) Utility infrastructure improvements, including elements such as new electrical substations and cruise vessel shore power systems, new sanitary sewer and water mains, and stormwater treatment systems
- (4) Apron/bulkhead structure upgrades, new fendering and bollard upgrades or improvements
- (5) Site development including lighting, way finding, and landscaping
- (6) Support buildings/passenger shelters and canopies

The Port will also lead the environmental review for the entire project assessing the environmental impacts from the project construction and future operations. Funding will support detailed technical evaluations of noise, air, marine transportation, traffic and water quality impacts of the project as part of State Environmental Policy Act (SEPA) review. Funding will also start permit application process for the required state, local and federal permits needed prior to starting construction.

Schedule

With the target 2022 date to begin cruise terminal operations, key milestones are provided below. With the investment partner not yet identified and the complex project subject to elements that are out of the Port’s and investment partner’s control, if the 2022 delivery date cannot be met, a full year delay could result.

Commission Authorization – Initial Design Funding (This Authorization)	March 12, 2019
Investment Partner Solicitation (Request For Qualifications)	March 13 2019
Design start - Port’s Project Elements	2Q 2019
Commission Authorization - Investment Partner Lease Agreement	4Q 2019
Commission Authorization – Remaining Design Funding	4Q 2019/1Q 2020
Commission Authorization – Port’s Project Elements Construction Funding	3Q/4Q 2020
Construction Start – Port’s Project Elements	4Q 2020 / 1Q 2021
Targeted Cruise Terminal In-Use Date	2Q 2022

Cost Breakdown

	This Request	Total Project
Design and Environmental Review	\$5,600,000	\$9,600,000
Construction	0	\$90,400,000
Total	\$5,600,000	\$100,000,000

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Port develops a new cruise terminal at Terminal 46 without a private sector partnership. Port would be funding the entire \$200 million investment inclusive of a total estimated \$22 million design phase funding request. Target new cruise terminal in operation by the 2023 cruise season.

Cost Implications: \$200 million (Port’s Investment)

Pros:

- (1) Port maintains full control of project delivery and outcomes
- (2) Investment provides maximum ROI revenue potential
- (3) Maintains Seattle’s lead position as a homeport serving the Alaska Cruise market
- (4) Supports growth of economic benefits to our region
- (5) Enables the Port to serve the new class of larger cruise ships being built

Cons:

- (1) Insufficient capacity in Port Maritime Division Capital Plan to fully fund project
- (2) Port assumes all risk associated with project development and with the long-term revenues from the cruise business
- (3) Port project delivery system to perform entire project scope would not meet the intended 2022 completion date and cruise market schedule drivers. Significant financial consequence as relates to Terminal 46 rent would result

This is not the recommended alternative.

Alternative 2 – Develop new cruise terminal at Terminal 46 through a public-private Partnership agreement with target facility completion by the start of the 2022 cruise season. Request Commission to authorize initial \$5.6 million design development and permitting phase funding and return to the Commission for the remaining design funding of \$5 million after an investment partner is on board

Cost Implications: \$200 million – Shared capital investment \$100 million by Port of Seattle and \$100 million by a private partner

Pros:

- (1) Port’s investment portion aligns with approved 2019 Maritime Capital Budget
- (2) Development and long-term business risks and rewards are shared between the Port and a private partner
- (3) More likely to achieve aggressive target schedule of opening new cruise terminal in 2022
- (4) Partnership secures additional/future revenue stream for Maritime
- (5) Additional berth capacity aligns with market demand, positioning the port for new cruise ship deployment schedules
- (6) Maintains Seattle’s lead position as a homeport serving the Alaska Cruise market

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- (7) Supports growth of economic benefits to our region at earliest date
- (8) Enables the port to serve the new class of larger cruise ships being built more efficiently
- (9) Having the \$5.6 million initial design funds would allow early design development and permitting work to proceed. The remaining funds necessary to complete the design phase effort would be assessed after the investment partner is brought on board and by then the scope and roles and responsibilities would be better defined with the help of the investment partner.

Cons:

- (1) Port relinquishes some control of project outcomes
- (2) Potential limitations on maximum return (ROI)

This is the recommended alternative.

FINANCIAL IMPLICATIONS

<i>Cost Estimate/Authorization Summary</i>	Capital	Expense	Total
COST ESTIMATE			
Original estimate – Project Cost to the Port	\$100,000,000	\$0	\$100,000,000
AUTHORIZATION			
Previous authorizations (Division Approval)	\$150,000	0	\$150,000
Current request for authorization	\$5,600,000	0	\$5,600,000
Total authorizations, including this request	\$5,750,000	0	\$5,750,000
Remaining amount to be authorized	\$94,250,000	\$0	\$94,250,000

Annual Budget Status and Source of Funds

The New Cruise Terminal Project CIP C800582 is included in the 2019 Plan of Finance for a total cost of \$100,000,000. The estimated total project cost is \$200,000,000, including \$100,000,000 investment from a private partner.

The Port’s share of the project is being funded with the General Fund.

Financial Analysis and Summary

Project cost for analysis	\$100,000,000 (Alternative 3)
Business Unit (BU)	Cruise Operations
Effect on business performance (NOI after depreciation)*	2022: \$3.15M 2027: \$11.03M 2032: \$22.06M
IRR/NPV (if relevant)*	NPV: \$236.75M MIRR: 10.83%
CPE Impact	N/A

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*Analysis and estimates are pre-decisional, preliminary, and subject to change.

Future Revenues and Expenses (Total cost of ownership)

The Port's share of annual operating and maintenance costs will be determined after project proposals have been received, thoroughly reviewed, a private partner selected, and an agreement with the private partner finalized. Preliminary analysis has estimated a potential project payback period of ten years.

ATTACHMENTS TO THIS REQUEST

PowerPoint Presentation Slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

COMMISSION SPECIAL MEETING, NOVEMBER 7, 2018

The Commission was briefed on the proposed new cruise terminal (among other capital projects) at a study session. The session's topic was specifically the 2019 five-year Capital Improvement plan for the Maritime and Economic Development Divisions.

COMMISSION MEETING, MARCH 12, 2019

The Commission adopted Motion 2019-02 – Principles for Cruise Business Development.