

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6a
Date of Meeting October 11, 2016

DATE: October 04, 2016
TO: Ted Fick, Chief Executive Officer
FROM: Mike McLaughlin, Director, Cruise and Maritime Operations
Melinda Miller, Director, Portfolio & Asset Management, Economic Development
SUBJECT: Pier 66 Facility Exterior and Interior Modernization Design Authorization
(CIP Nos. C800820 and C800889)

Amount of This Request: \$2,500,000 **Source of Funds:** General Fund

Est. Total Project Cost: \$20,000,000

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute contracts, develop design alternatives and documents, conduct environmental reviews, and apply for permits for the modernization of the façade of the Paul Schell Center at Pier 66 and the interior of Bell Harbor International Conference Center for a combined estimated cost of \$2.5 million.

SYNOPSIS

This program will focus on keeping the Port's image along the Seattle waterfront strong while also maintaining the high standard of performance and reputation the Pier 66 facility has garnered over the last two decades successfully serving multiple maritime and economic development business interests.

On the heels of the Pier 66 cruise passenger terminal improvement project and Seattle waterfront revitalization efforts, there has been interest expressed from the Port Commission and senior management to consider improvements to the building façade along with specific requests from the Port's conference and event center manager to update the interior. Collectively this presents an opportunity to modernize Pier 66. In response to these requests, staff has completed some preliminary conceptual ideas, rough order of magnitude level of investment needed for the program, and consideration of a phasing schedule that would best align with all the great things happening on Seattle's waterfront.

This initial funding request, for \$2.5 million from the general fund, is for design development, architectural and engineering work, environmental and community review, project permitting, cost estimating and full schedule development. A program of this size and complexity requires a thorough and systematic approach to ensure stakeholder engagement occurs, improved facility

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performance and business growth is possible, and community acceptance is achieved before any construction would begin. Additional funding authorization will be required following design phase to proceed with facility modernization. The future funding for construction costs for exterior work would be from the tax levy. The future funding for interior work would be from the general fund.

BACKGROUND

In the early 1990s, a visionary Port Commission implemented a plan to revitalize the central waterfront. They stepped up when public and private plans for redevelopment had failed. Several piers, including Pier 66, which was the former location of the Port of Seattle Headquarters, were in a state of decay and obsolescence.

The Central Waterfront Development Project succeeded in revitalizing and bringing much needed development to the waterfront and surrounding areas. Bell Street Pier, the waterside part of this project, opened in 1995 and included a transit shed (space for future cruise terminal), international conference center, marina, public plaza and roof deck, working apron, and various retail and office uses. The project received national and international design awards for its thoughtful design celebrating the working waterfront and was honored by the City of Seattle with Bell Street Pier Day in 1995.

In the late 90s the cruise terminal space was expanded to accommodate the Port's first homeport cruise line, Norwegian Cruise Line (NCL). The recent 15-year agreement with NCL and the related improvements underway to expand the cruise facility—scheduled completion in 2017 will significantly alter and elevate the operation of the facility for cruise. Furthermore, portions of cruise facilities are utilized for conferences and events year-round when a vessel is not in port, so it is important to add certain elements and upgrades that make them function effectively.

The positive impact of this project on Seattle's central waterfront, both economically and architecturally, cannot be overstated. Pier 66 is a community asset that deserves ongoing attention and support. The facility has served the Port well over the last 20 years but time has taken its toll, operating needs have evolved, and the adjacent neighborhood is changing. As the seawall and viaduct projects are completed and the Alaskan Way Street improvement plans move forward, it is worthy of consideration to bring the facility up to the standards of the proposed improvements.

PIER 66 MODERNIZATION PROJECT OBJECTIVES

The project's main value lies in enhancing the Port's overall mission and standing, protecting the significant investment already made by the Port, and meeting the evolving market demands. Opportunities to protect existing revenues and generate new revenue to reduce the tax levy obligation required by this project will be explored in the design development phase of the project. Value can also be realized by enhancing the environmental footprint of the building, enhancing the entire Alaskan Way waterfront experience for citizens of Seattle and King County and tourists, and improving the functionality of the facility for both cruise and conference center

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uses. The preliminary estimate for the interior and exterior improvements identified to date, at zero percent design, is in the range of \$18 million to \$21 million.

Exterior Façade Improvements: This part of the project must be sensitive to the community in response to architecture, history, and access and should be appropriate to other waterfront development.

The work completed in preparing to bring this proposed program forward for consideration included development of multiple concept sketches of possible building façade treatments. The intent of the initial exercise, which involved review and feedback from commissioners and executive team, was to create a number of ideas to start the creative design process and prepare order of magnitude cost estimates. In review of several façade design alternatives, ranging from minimal to the “Cadillac” version, three of the design concepts stood out as favorites. With estimates between \$5 and \$20 million, one concept became the preferred approach for a possible façade refresh, at a cost around \$13 million.

From the feedback received, a list of priority project elements was identified for a façade re-design to be studied and proposed:

- Environmental enhancements / sustainable design features
 - Solar panel power generation / renewable energy
 - Energy efficient products
 - Water saving or recycling features
- Landscape improvements
- Efficiency enhancements
 - Identities
 - Signage/Wayfinding
- Functional enhancements
 - Canopies
 - Entrances
- Public enhancements to promote tourism
 - Plaza for public gatherings, etc.
- Future building maintenance costs

Construction of exterior façade improvements will be funded by the tax levy.

Interior Improvements: When Bell Harbor International Conference Center (BHICC) opened in 1995, it was considered state-of-the-art in technology and layout. It was one of the few stand-alone conference centers not attached to a hotel and its location on the newly developed central waterfront created a unique marketing niche. The facility has been well maintained over the years through a Furniture, Fixture and Equipment (FF&E) fund that was established at the outset and is based on a fixed percentage of gross revenues that amounts to roughly \$250,000 per year. This allowed Columbia Hospitality, Inc. (CHI), our manager, to make emergency purchases for things like failed kitchen equipment, replace obsolete technology and provide minor upgrades to keep the facility fresh and operating properly. The conference and event industry in Seattle has

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matured to the point that the market for premier, high-quality conference and events has evolved dramatically - technology and flexibility are paramount.

The focus of the interior part of the project will be to modernize Bell Harbor International Conference Center itself and to add elements and upgrades to the newly expanded cruise terminal spaces to make them function more effectively as event spaces. The preliminary estimate for interior improvements identified to date is in the range of \$5 million - \$8 million.

Modernization is critical to protect the significant investment already made by the Port and to generate new revenue for the future. To do this our facility must remain competitive and relevant and respond to the evolving market realities and demands which include:

- demand for high-level technology and audio-visual infrastructure
- more flexible and collaborative event spaces
- expanded networking spaces and work stations adjacent to event spaces
- a fresh, modern look to furnishings and finishes

The following are elements to be studied and proposed:

Conference Center (Third Floor)

- Add additional rentable area where possible and create more flexible, adaptable and customizable space - visually, audibly, and physically. This may include movable glass walls and flexible spaces to take advantage of the water views and create larger pre-function areas.
- Refresh the facility so it feels more current but respects its history and established aesthetic.
- Celebrate key iconic elements of the original landmark design concept (“working waterfront”).
- Future-proof the technology & audio visual infrastructure investments to support emerging platforms which enable and enhance connectivity, interactivity, and productivity (currently that means video, Skype, and hybrid meetings)
- Consider and evaluate energy efficiency opportunities, for example LED lighting, energy rebates, etc.

Cruise Terminal Spaces (First and Second Floors):

- Enhance design continuity, accessibility, wayfinding and flow between cruise terminal spaces and the conference center.
- Add elements (blackout shades, zoned and dimmable LED lighting, ADA ramp, movable walls) that allow for effective use for conferences and events.

Construction of Interior Improvements will be funded by the General Fund

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Scope of Work

The conceptual level elements that have been considered thus far are outlined below. These potential elements would be evaluated and refined during design development. Additional elements may be incorporated to achieve the modernization objectives:

Exterior Elements:

- Install new canopies, incorporate new amenities and enhance public plaza areas
- Create / enlarge openings to enhance natural lighting
- Replace building enclosure and building envelope components
- Incorporate sustainable features such as installation of solar panels and energy efficient lighting systems
- Install signage and variable messaging signs for way finding
- Install new landscaping and features for public benefit

Interior Elements:

- Install operable walls to maximize utilization of rentable space
- Reconfigure reception and concierge areas
- Upgrade lighting, controls, audio-visual and technology systems
- Install stairs from Level 1 to the Conference Center (Level 3) to create interior vertical circulation
- Incorporate new finishes and floor coverings
- Incorporate new window treatment
- Create / enlarge openings to enhance natural lighting
- Increase electrical power capacity for events
- Improve accessibility and wayfinding, including installation of variable messaging signs

Schedule

The conceptual level project schedule for this project is as follows:

Design Consultant Procurement, Design Development and Permitting	15 months	October 2016 – January 2018
Bidding, award submittals and NTP	4 months	February 2018 – May 2018
Site Construction	12 months	June 2018 – June 2019

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Interior	Exterior	Total Project
Original Budget	\$7M	\$13M	\$20M
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$0.9M	\$1.6M	\$2.5M
Total Authorizations, including this request	\$0.9M	\$1.6M	\$2.5M

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Remaining budget to be authorized	\$6.1M	\$11.4M	\$17.5M
Total Estimated Project Cost	\$7M	\$13M	\$20.0M

Project Cost Breakdown

	This Request	Total Project
Construction	\$0	\$15.2M
Construction Management	\$0.1M	\$0.7M
Design	\$2.0M	\$1.1M
Project Management	\$0.3M	\$0.4M
Permitting	\$0.1M	\$0.1M
State & Local Taxes (estimated)	\$0	\$1.5M
Total	\$2.5M	\$20.0M

Budget Status and Source of Funds

This project was not anticipated in the capital budget and 2016 Plan of Finance because the economies of scale tied to including these improvements while Pier 66 is already under construction were not previously identified. The \$20M required to fund this project is available under CIP C800002 MD: Contingency Renewal & Replace & C800216 EDD: Contingency Renewal & Replace.

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Financial Analysis and Summary

CIP Category	Renewal/Enhancement
Project Type	Renewal & Replacement
Risk adjusted discount rate	7.0%
Key risk factors	<ul style="list-style-type: none">• Interior improvements fail to generate expected revenue growth.• Actual costs could exceed current estimates.• The useful lives of improvements are not fully known at this time. Individual assets and expected useful lives will be identified during design phase.
Project cost for analysis	\$20M (see Budget Authorization Summary above for breakdown)
Business Unit (BU)	Cruise & Maritime Operations and Portfolio Management
Effect on business performance	<p>Interior Improvements: The interior improvements are expected to increase revenue by 5% annually over the next 20 years. The 20-year NPV of marginal net operating income (i.e. estimated income with improvements minus estimated income without improvements) is approximately \$301K. Without improvements, CHI expects revenue to decline by 2.25% annually due to existing suboptimal space configuration, lack of amenities, and future availability of competitive event/conference space offerings in Seattle.</p> <p>Exterior Improvements: The exterior improvements are not expected to generate monetized benefits at this time. However, exterior improvements are expected to protect existing revenues, better accommodate facility users including tourists and local community members and potentially attract additional cruise business.</p> <p>The combined projects are expected to add an additional \$1M in depreciation expense per year based on a preliminary estimated useful life of 20 years for all improvements. A more detailed breakdown of asset life will be determined during the design phase of the project.</p>
NPV	NPV: (\$12.7M) based on 20-year cash flow projections
CPE Impact	N/A

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Lifecycle Cost and Savings

Preliminary lifecycle cost analyses have not been developed for this project but the design team will identify the lowest total cost design options appropriate for the facility upgrades during design. Annual Operating and Maintenance costs are expected to decrease.

STRATEGIES AND OBJECTIVES

This project supports the Century Agenda strategy of “advancing this region as a leading tourism destination and business gateway” by providing the much-needed improvements to the Bell Street facility. To preserve the established success of the conference and event center, significant interior improvements of this twenty-year-old facility are now required. This interior modernization will support the continued long-term growth of the hospitality component of this facility. Combined with the cruise passenger terminal expansion project already underway, the proposed interior enhancements for the conference center will complete the interior refresh and modernization of the building. The exterior modernization component of this program provides the opportunity to ensure the façade remains attractive, building entrances and public areas are inviting and efficient, plus exterior finishes / architectural elements connect well with the interior and that the entire facility has a cohesive design. Further, this program presents an opportunity to improve the guest experience and therefore elevate the reputation of this iconic property, amidst other significant waterfront improvements in the next decade.

Small Business Opportunities

The project manager will coordinate with the small business team to maximize small business participation opportunities.

Energy Efficiency

Other objectives include focused attention during design phase towards ongoing facility maintenance requirements and potential of installing solar panels to support improved energy efficiencies.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Maintain Status Quo

Continue to maintain the facility in its current state through the operations expense budgets and BHICC’s FF&E budget, while supporting the NCL cruise passenger terminal interior expansion project. The Port now has full maintenance responsibility for the entire facility under the current agreements with NCL and CHI.

Cost Implications:

Capital Investment: \$0

Revenue Decline Potential: (2%) per year

Pros:

- (1) Lowest initial capital cost (none)

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Cons:

- (1) Aging facilities that look dated and do not have amenities such as updated audio visual and zone lightings systems and flexible, partitionable spaces that are expected with today's conference and event centers
- (2) Decreased conference and event revenues as adopting lower pricing becomes the strategy to secure business in an aged conference facility – revenues are expected to decrease on average by 2.25% per year without additional investment
- (3) Increased maintenance costs expected as facilities continue to age and wear out
- (4) Need for modernization simply deferred

This is not the recommended alternative.

Alternative 2 – Interior modernization only

Proceed with the design development of the interior modernization only but keep exterior of the building as is.

Cost Implications:

Capital Investment: \$7M Revenue Growth Potential: 5% per year

20-Year NPV: \$301K

Pros:

- (1) Provide amenities and experience expected for a conference facility of this size and caliber
- (2) Enable revenue growth – estimated to increase by an average of 5% per year for 20 years
- (3) Provide flexible spaces to better accommodate customer needs
- (4) Quicker design reviews and permit approvals by the City of Seattle and shorter construction duration compared with Alternatives 3 and 4.
- (5) Modest capital investment

Cons:

- (1) Requires a modest capital investment
- (2) Increased maintenance costs expected as the exterior continues to age and wear out
- (3) Potential of more integrated interior and exterior design and construction efficiencies not capitalized
- (4) Need for exterior modernization simply deferred

This is not the recommended alternative.

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Alternative 3 – Complete the project in a phased approach with interior modernization first and then exterior modernization a year later

Cost Implications:

Capital Investment: \$20.6M Revenue Growth Potential: 5% per year

20-Year NPV: (\$16.2M)

Pros:

- (1) Timing of the interior modernization schedule is protected from any of the potential challenges the exterior modernization might face (shoreline requirements, design review board interaction, etc.)
- (2) Provide improved amenities and experience for both interior and exterior of the building at a quality level expected for a conference and cruise facility of this size and caliber
- (3) Enable revenue growth - estimated to increase by an average of 5% per year for 20 years
- (4) Provide flexible spaces to better accommodate customer needs
- (5) Provide opportunities to integrate interior and exterior components that work in harmony and flow as one facility serving multiple business sectors and public space.

Cons:

- (1) Higher capital investment
- (2) Delay of exterior façade improvements
- (3) Increase of facility maintenance costs expected as facilities continue to age and wear out in this extended modernization period
- (4) Risk of less integrated interior and exterior design, increased risk of construction inefficiencies – duplicating construction impacts on operations
- (5) Exterior project components would trigger the City of Seattle Design Review Board's review process which translates to longer design development and overall project schedule
- (6) Staggered design and construction in phases would incur additional costs

This is not the recommended alternative.

Alternative 4 – Full Modernization: The recommended alternative is to proceed to the next step in determining how best to modernize the entire Pier 66 facility (exterior and interior) through project scoping, design, cost estimating, community outreach, environmental review, and permitting strategy as one program which includes multiple elements. Staff will return to the commission to seek additional authorization for construction funding at the end of the design development phase.

This alternative takes best advantage of consolidating the interior and exterior components into one integrated design effort to facilitate cost savings both in design and construction.

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Cost Implications:

Capital Investment: \$20M

Revenue Growth Potential: 5% per year

20-Year NPV: (\$12.7M)

Pros:

- (1) Modernization would occur at a time of significant upgrades along the waterfront intended to transform the waterfront as a major amenity for the city and tourism.
- (2) Provide improved amenities and experience for both interior and exterior of the building at a quality level expected for a conference and cruise facility of this size and caliber
- (3) Enable revenue growth from all facility users and attract potential new cruise business, new cruise line. Conference and Event Center revenues are estimated to increase by an average of 5% per year for 20 years.
- (4) Provide flexible spaces to better accommodate customer needs
- (5) Provide opportunities to integrate interior and exterior components that work in harmony and flow as one facility serving multiple business sectors and public space.

Cons:

- (1) Highest initial capital costs – broader scope of work for design phase
- (2) Exterior project components would trigger the City of Seattle Design Review Board's review process which translates to longer period of time for design development and overall project schedule
- (3) Combining interior and exterior work as one construction package may take longer to implement

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- August 23, 2016 – Commission briefing