



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6d

ACTION ITEM

Date of Meeting December 5, 2017

DATE: November 28, 2017
TO: Dave Soike, Interim Executive Director
FROM: David McFadden, Managing Director Economic Development
Jeffrey Utterback, Real Estate Development Director
SUBJECT: Salmon Bay Marina Acquisition and Development

Amount of this request: \$18,579,120
Total estimated project cost: \$30,479,120

ACTION REQUESTED

Request Commission authorization for the Executive Director to:

1. execute purchase sale agreement to acquire Salmon Bay Marina for \$15,679,120;
2. execute an amendment to the existing Architectural/Engineering Services contract for Fisherman’s Terminal for \$2,000,000 for the planning and design of a 60,000 square foot light industrial building and related uplands site improvements;
3. invest \$900,000 in covered moorage fire suppression systems, and marina start-up costs.

EXECUTIVE SUMMARY

Approximately 18 months ago the owners of Salmon Bay Marina (Draper Machine Works or “DMW”) approached the Port about possibly purchasing the property. Salmon Bay Marina is an existing recreational marina immediately adjacent to the western edge of Fishermen’s Terminal (FT). It contains five docks supporting 166 slips. The 5+ acre fee-simple site includes 2.23 acres in upland and 2.83 acres of fee-owned submerged land. An additional 1.73 acres of submerged land is leased from the Washington State Department of Natural Resources, for a total submerged site area of 4.56 acres.

The property has an approved Master Use Permit (MUP) for upland development of light industrial facilities. It also has a permit from the U.S. Army Corps of Engineers that will allow for the reconstruction and in-water dredging required for the replacement of docks D and E.

Port staff completed exhaustive due diligence on the property over a five-month period earlier this year. The property is reasonably well maintained with no serious deferred maintenance

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issues. A Phase Two environmental assessment found brownfields contamination on some portions of the property.

Sellers (DMW) of Salmon Bay Marina have accepted the Port’s offer of \$15,679,120. This price reflects our original offer minus deductions for brownfields remediation:

Original Asking price from Seller	\$18,400,000
Original price agreed in Letter of Intent (LOI)	\$16,836,120
Port deductions for brownfields remediation	\$1,157,000
Revised price	\$15,679,120

Basis for Port Offer

- Port due diligence identified upland and in-water environmental contamination issues that may require remediation. The Port has reduced price based on remediation costs.
- The seller has provided the Port a full cost reduction for the uplands cleanup related to past MARCO shipyard contamination.
- Port is receiving all historic insurance policies from seller to cover potential future in-water claims. As a result, the Port is not receiving any indemnification from seller (nor are we indemnifying the seller).
- Seller remains potentially liable party for future environmental remediation.

Brownfields Assessment

Former MARCO Shipyard Site

- The cleanup area within the historical MARCO lease area is contaminated and may need to be remediated. Port consultants estimated that this work will cost \$870,000.

In-Water Contamination (Docks D & E)

- The planned development of the property includes dredging of approximately 12,000 cubic yards (CY) of sediment. The upper 4-foot layer of sediments (approximately 4,000 CY) in the planned dredge area is contaminated and requires off-site disposal at a licensed landfill.
- The costs related to the handling and off-site disposal of these contaminated sediments is in addition to the normal costs we have assumed for the construction of the two newly permitted docks. The additional cost related to the in-water work under docks D & E is estimated at \$287,000.

Upon acquisition, as part of the FT Expansion, the Port would use the MUP to build a 60,000 square foot light industrial building and related site improvements on the property’s uplands. This facility would be leased out to maritime and manufacturing companies.

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JUSTIFICATION

Salmon Bay Marina is adjacent to FT and presents a generational opportunity to purchase a property that is strategically located next to an important Port facility. The property's upland can be developed expeditiously and constructing and leasing a light industrial building would support maritime and manufacturing companies in the Ballard/Interbay area. An earlier Port study completed by Madison Bay found that:

- The Ballard Interbay industrial submarket has an extraordinarily low vacancy rate of 0.60% at the end of Q3-2015, below the Puget Sound industrial real estate market vacancy rate of 4.91%, and far below the national average of 6.70%.
- Suppliers and vendors supporting the [fishing] fleet have a strong preference to locate at or near Fishermen's Terminal, but lack of available space, high rents, and traffic are cited as obstacles to locating in the Ballard Interbay area.
- The suppliers and vendors prefer light industrial facilities with a warehouse/shop area, office space, and either grade-level or dock-high loading capabilities.
- The limited supply of industrial property in Seattle in general, and Ballard Interbay in particular, is resulting in rising rents and building sale prices.

The Port is in a position to relieve some of this pressure while supporting the fishing fleet and the maritime industrial sector by developing additional industrial space at Salmon Bay Marina.

Purchasing the property also protects industrial lands and helps sustain Seattle's working waterfront. There are many industrial properties in Seattle that are threatened by gentrification and zoning changes. Salmon Bay is a particularly important property though because it is adjacent to FT, one of our core commercial facilities supporting the fishing fleet.

As new light industrial facilities are added at FT over the next few years Salmon Bay adds capacity as FT gets denser. The additional parking, water access, and light industrial facilities at Salmon Bay Marina would complement long-term operations at FT and help to achieve the objectives recommended in the Port's 2016 FT Long-Term Strategic Plan.

There is also high demand for recreational boat slips. The Port operates four recreational marinas and Salmon Bay would complement these facilities. Port staff has developed significant core competencies for managing recreational marinas and the acquisition contemplates adding additional staff to operate SBM.

DETAILS

Upon Commission authorization staff would execute purchase sale agreement (PSA) with Salmon Bay Marina owners. The Sellers plan to use sale proceeds for a 1031 exchange so they have up to six months to find a suitable exchange property or investment. The PSA provides a minimum notice of 45 days to the Port when sellers have executed the 1031 exchange so the property will likely close sometime between March and July 2018.

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Planning and design of the 60,000 square foot light industrial building and related uplands site improvements will begin after closing. These proposed facility improvements are related to the FT Long-Term Strategic Plan completed by the Port in 2016. As such, the Port proposes to utilize the services of Miller Hull Partnership, LLC, and the consultant currently under contract to perform planning and design for the FT development program improvements. The proposed amended value is \$2,000,000 which increases the contract to a total of \$3,500,000. In accordance with RCW 53.19.060, this serves as notification of the Port’s intent to execute an amendment for more than 50% of the original contract value. This memorandum will be placed on file for public inspection at the Port’s Bid Desk.

Staff to manage the marina would be added by midyear 2018. Maintenance and safety (sprinkler system) investments would be finished in 2018 or early 2019 depending on when the property actually closes.

Schedule

Activity

Commission purchase/design/construction authorization	Q4 2017
Design start	Q3 2018
Construction start	Q3 2019
In-use date	Q3 2020

Cost Breakdown

	This Request	Total Project
Property Acquisition (1)	\$15,679,120	\$15,979,120
Light Industrial Building Construction	\$0	\$11,600,000
Light Industrial Building and Uplands Improvements Planning & Design	\$2,000,000	\$2,000,000
Sprinkler Fire Suppression System (for existing covered docks)	\$700,000	\$700,000
Marina Start Up Costs	\$200,000	\$200,000
Total	\$18,579,120	\$30,479,120

(1) Total project cost includes previously authorized \$300,000 for due diligence.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Option One: Do Nothing – Pass on Acquisition Opportunity

Cost Implications: None

Pros

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- Retains Port capital for other priority projects and finance initiatives (ex. early repayment of debt – equivalent upfront cost provides \$4 mil. per year cash flow with IRR of 4.2%).
- Avoids challenges and liabilities that come with acquiring and operating recreational marinas with aging infrastructure and covered moorage.
- Avoids environmental liabilities.

Cons

- Potential to lose this maritime land to a non-compatible and non-maritime /Industrial use.
- Loss of long term capacity for Fishermen’s Terminal.
- Loss of ability to add needed light industrial space in the Ballard Interbay area at this site.
- Missed opportunity to lead or help with brownfields remediation and environmental enhancement at this site.

Option Two: Purchase the marina : sub-options related to rebuilding or demolishing the docks

Pros

- The purchase would protect maritime industrial land and provide needed space for local maritime and manufacturing companies.
- The property is adjacent to Fishermen’s Terminal.
- Depending on development scenarios, the property generates the following Internal Rate of Return (IRR)
 - 4.09% with rebuilt docks.
 - 5.03% with demolishing the docks.
- The property would support new job creation. A new 60,000 square foot light industrial facility typically supports 100-120 maritime/manufacturing jobs.
- The property provides the Port a brownfields remediation opportunity.
- The Port has experience operating recreational marinas.
- The property’s shoreline may provide a long-term opportunity for habitat restoration.
- Environmental liabilities are balanced by reduction in purchase price and assignment of historic insurance policies.

Cons

- Purchasing a recreational marina is not a Century Agenda priority.
- Buying an aging recreational marina could bring unforeseen maintenance costs and create constituent issues due to the need to raise rates to support needed improvements.
- Roof covered moorage brings additional risk of fire, snow/weather damage, and collisions.

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- The acquisition and development uses Port capital at a time when there are other competing needs and not a lot of long term financial capacity.
- The property will not support Fishing Vessels. The cost of dredging and building commercial docks for these commercial vessels is prohibitive.

Option Three: Execute a Right of First Offer

Pros

- Retains some control over property if it goes to market.
- Potential to save money IF market is soft or no offer made.
- Saves Port capital for some time (unspecified).

Cons

- Potential to lose property to buyer willing to pay more than Port.
- May impact value of/feasibility for uplands building.
- Sellers may reject Right of First Offer.

FINANCIAL IMPLICATIONS

Annual Budget Status and Source of Funds

The Salmon Bay acquisition and development project is included in the 2018 Draft Plan of Finance under CIP #C800993. The Project will be funded by the tax levy.

Financial Analysis and Summary

Initial project cost for analysis*	\$30,479,120
Business Unit (BU)	Maritime: Recreational Boating / Portfolio Management
Effect on business performance (NOI after depreciation)	Revenue, Expense, and Depreciation is planned to stabilize at the end of year 6 with NOI after Depreciation of approximately \$1.16M.
IRR/NPV (if relevant)	4.09% IRR based on rebuilding docks
CPE Impact	N/A

*IRR calculation includes additional estimated future costs of ownership – see below for detail.

Future Revenues and Expenses (Total cost of ownership)

In addition to the initial capital investment included in this authorization request, the financial analysis includes an estimated \$6.31 million (2017 dollars) for reconstruction of docks D and E within the next five years and \$13.91 million (2017 dollars) for rebuilding docks A, B, and C in twenty years. The analysis also includes \$1.95 million (2017 dollars) of re-investment in the

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building in thirty years as well as a residual value of \$37 million for the building and marina. These additional capital expenditures will require future authorization. The financial analysis includes revenues and expenses associated with the marina and the industrial building. Key operating assumptions include revenues from the flex industrial building of \$24 per square foot and 95% occupancy reflecting the current strong market and staff and maintenance operating expenses for the marina; revenues and expenses are forecast to grow at 2.5% per year.

ADDITIONAL BACKGROUND

Among the existing boats moored at Salmon Bay Marina, approximately 10% of these vessels are derelict. These boats are not seaworthy and may not have insurance. The Purchase Sales Agreement requires the Seller to remove these vessels prior to the Port taking position of the property. We are also requiring Seller to remove all houseboats as a condition of sale.

ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides
- (2) Purchase Sale Agreement
- (3) Due Diligence Summary
- (4) Salmon Bay Comprehensive Analysis and Options

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None