

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. _____ 10a

Date of Meeting _____ March 5, 2009

DATE: February 18, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Joe McWilliams, Managing Director, Real Estate Division
Pat Spangler, Real Estate Manager

SUBJECT: Request Port Commission authorization for the Chief Executive Officer to execute a Fourth Amendment to the Management Agreement for the operation of Bell Harbor International Conference Center between the Port of Seattle (Port) and Columbia Hospitality, Inc. (CHI) to include the "Maritime Event Center at Bell Harbor" premises (former Odyssey space), as exclusive premises, and use those premises for events, meetings, and catering.

BACKGROUND

From January 14, 1997 through June 3, 2008, Odyssey Maritime Discovery Center (OMDC), a non-profit corporation, leased approximately 28,000 square feet of exhibit space at Pier 66 in the Port's Bell Street Pier project operating as a contemporary maritime museum focused on building public awareness of maritime trade, transportation, and marine affairs.

On June 4, 2008, the Port terminated the lease with OMDC and the Port entered into an agreement with Columbia Hospitality Inc., (the third party managers of Bell Harbor International Conference Center), to manage the day-to-day operations of the Odyssey Maritime Discovery Center on behalf of the Port through December 31, 2008. On August 11, 2008 a settlement agreement was fully executed between the OMDC and the Port transferring ownership of the assets (exhibits, furniture, fixtures and other equipment) to the Port.

After discussing the alternatives with the Commission, staff composed a Request for Proposals (RFP) to Lease the former Odyssey Maritime Discovery Center space. The RFP was published widely in local and regional periodicals and received significant interest during the solicitation period. After eight weeks of repeated publication of solicitation notices and outreach, the Port received one proposal from Columbia Hospitality, Inc.

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Terms of Columbia Hospitality Agreements

Lease of former Odyssey Space

To meet the Port objectives, set forth in the RFP, Columbia Hospitality Inc. proposes to enter into a new lease with the Port for the former Odyssey space, renamed the “Maritime Event Center at Bell Harbor,” for use as a venue to host conferences, special events and as a potential maritime educational facility. The Port will not participate in any costs associated with the educational program. CHI intends to work with the maritime industry to raise funds to support such programs. Staff believes that retention of the facility as an event center achieves the best use for the space utilizing the existing investments made within the premises. Terms of the lease are:

Premises: 28,563 square feet

Term: March 5, 2009 – May 31, 2012

Rent:

March 5, 2009 through October 31, 2009	\$0/yr (<u>\$0.00</u> /mo.)*
November 1, 2009 through December 31, 2009	\$24,000/year* (\$2,000/mo)
January 1, 2010 through December 31, 2010	\$30,000/year* (\$2,500/mo)
January 1, 2011 through December 31, 2011	\$36,000/year* (\$3,000/mo)
January 1, 2012 through May 31, 2012	\$3,500/month

*plus applicable taxes

Improvements to Premises Provided by Landlord: New signage, carpet and paint up to \$50,000.

All conferences and special events will be conducted by CHI, not on its own behalf but as manager of the Port’s BHICC. The Port will grant CHI the authority to conduct these events through an amendment to the management agreement for the BHICC. In order for the Port to be able to amend this agreement to add the Maritime Event Center at Bell Harbor, the Port must have sufficient control of the space. To acquire that control, we propose the Port enter into a sublease with CHI for the space rent-free.

Amendment to Management Agreement

Staff has prepared a Fourth Amendment to the Management Agreement with CHI that allows for Bell Harbor International Conference Center to be the exclusive caterer for events and meetings in the “Maritime Event Center at Bell Harbor” space. Revenues and expenses will flow through Bell Harbor. Details of the amendment are attached.

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PREVIOUS COMMISSION ACTION

On September 8 1995, the Port Commission authorized the Executive Director to execute a six-year management agreement with Columbia Hospitality, Inc. for the management of the Port's Bell Harbor International Conference Center. This agreement terminated on May 31, 2001.

On June 26, 2001, the Port Commission authorized the Executive Director to execute a new five-year management agreement with an option for five additional years with Columbia Hospitality, Inc. for the management for the Port's Bell Harbor International Conference Center.

On February 11, 2003, the Port Commission authorized the Chief Executive Officer to execute a First Amendment to Management Agreement with Columbia Hospitality, Inc. for the management for event space located at the Port's Shilshole Bay Marina. The management of this space expired on October 12, 2004.

On November 14, 2006 the Port Commission adopted Resolution No. 3570, establishing additional revolving funds, designating where such funds shall be deposited, and directing how disbursements shall be made, and; authorized the Chief Executive Officer to execute a Second Amendment to Management Agreement with Columbia Hospitality, Inc. amending certain aspects of the agreement pertaining to the adoption of Resolution 3570.

On February 26, 2008 the Port Commission authorized the Chief Executive Officer to negotiate and execute a Third Amendment to Management Agreement amending the management contract between the Port of Seattle and Columbia Hospitality, Inc at Bell Harbor to provide for CHI to manage the day-to-day operations of the OMDC and for CHI to be exclusive beverage and caterer for events within the OMDC space expiring December 31, 2008.

STRATEGIC OBJECTIVES

This action supports the Port's strategy of "Seaport Vitality" by increasing the net operating income through greater asset utilization providing for a larger number of attendees for events.

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ALTERNATIVES CONSIDERED/RECOMMENDED ACTION

1. Do nothing and leave premises vacant. The Port would continue to incur expenses for maintaining and servicing the space with no opportunity to recover those costs.

2. The **preferred alternative** is to approve the following:
 - A. Amend the management agreement between the Port and CHI for the Bell Harbor International Conference Center to include the “Maritime Event Center at Bell Harbor” facility as exclusive premises and BHICC as exclusive caterer and provider for events and meetings. The above actions secure future revenues from the leased space and provide for greater revenue from events with Bell Harbor International Conference Center’s ability to accommodate larger events.

 - B. After Commission authorization of the amendment to allow use of the event center space, staff will execute a new lease with CHI (within CEO authorization) with a subsequent sublease back to the Port.

FINANCIAL IMPLICATIONS

Budget/Authorization Summary

Previous Authorizations	\$0
Current request for authorization	\$50,000
Total Authorizations, including this request	\$50,000
Remaining budget to be authorized	\$0

Project Cost Breakdown

Tenant Improvements- New signage, carpet, paint	\$50,000
Total	\$50,000

Source of Funds

The 2009 Real Estate Division Operating Expense Budget included amounts for tenant improvements. The tenant improvements will be funded from the General Fund.

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Financial Analysis Summary

CIP Category	Revenue / Capacity Growth																								
Project Type	Business Expansion																								
Risk adjusted Discount rate	7.5%																								
Key risk factors	The financial return generated by the lease and amendment is highly dependent on event activity at the Maritime Event Center space and by incremental revenue generated by larger events booking at BHICC due to the availability of the Maritime Event Center space. To the extent that actual activity falls below that assumed in the financial analysis, the return will be lower than presented below. A mitigating factor is the experience and proven results of CHI as an event manager.																								
Project cost for analysis	\$50,000																								
Business Unit (BU)	Real Estate Portfolio & Asset Management																								
Effect on business performance	<p>Following is an estimate of the impact of the lease and amendment on Real Estate Division Net Operating Income (NOI):</p> <table border="1"><thead><tr><th>NOI (in \$000's)</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>Total</th></tr></thead><tbody><tr><td>- NOI</td><td>\$26</td><td>\$219</td><td>\$349</td><td>\$185</td><td>\$780</td></tr><tr><td>Depreciation</td><td>\$0</td><td>\$0</td><td>\$0</td><td>\$0</td><td>\$0</td></tr><tr><td>NOI After Depreciation</td><td>\$26</td><td>\$219</td><td>\$349</td><td>\$185</td><td>\$780</td></tr></tbody></table>	NOI (in \$000's)	2009	2010	2011	2012	Total	- NOI	\$26	\$219	\$349	\$185	\$780	Depreciation	\$0	\$0	\$0	\$0	\$0	NOI After Depreciation	\$26	\$219	\$349	\$185	\$780
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ENVIRONMENTAL SUSTAINABILITY/COMMUNITY BENEFITS

N/A

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REQUESTED ACTION

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