

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**

**Item No.** 6c

**Date of Meeting** January 26, 2010

**DATE:** January 20, 2010

**TO:** Tay Yoshitani, Chief Executive Officer

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

**SUBJECT:** Interim Management of Events at Smith Cove Cruise Terminal – Fifth Amendment to the Bell Harbor International Conference Center (BHICC) Management Agreement.

**ACTION REQUESTED:**

Request Port Commission authorization for the Chief Executive Officer (CEO) to execute the Fifth Amendment to the Bell Harbor International Conference Center Management Agreement to include the Smith Cove Cruise Terminal as part of the extension premises, providing interim non exclusive management and use to Columbia Hospitality, Inc. for events until May 2012.

**BACKGROUND:**

As discussed during the staff briefing at the Commission meeting on January 5, 2010, the recent completion of the new Smith Cove Cruise Facility (SCCT) creates an opportunity for a proposed secondary use of SCCT to capture some additional revenue for the Port from this unique venue. The facility will lend itself to large corporate events (800+ guests), trade shows, pre-and post-convention events from Washington State Convention and Trade Center, etc. The proposed Fifth Amendment to the Bell Harbor International Conference Center (BHICC) Management Agreement would allow the Port's current event manager, Columbia Hospitality, Inc., (CHI) to manage and produce events at SCCT in the short term (until 2012), including marketing the space to potential event producers.

The only way the Port can capture revenues from SCCT bookings is through managing events directly or extending the event management responsibilities to a third party like CHI. As noted in the financial analysis, if the proposed Fifth Amendment is executed, for example, it is estimated that the Port would receive approximately \$193,000 in incremental revenue while CHI would receive \$73,000.

Individuals or groups who prefer not to use CHI as event manager would still be able to approach Cruise Terminals of America (CTA) directly and arrange for an event under the terms

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

January 20, 2010

Page 2 of 5

of the CTA lease, but the Port would receive no direct revenue for any events contracted directly with CTA. CTA has not expressed interest in full-time event management.

Staff chose to wait until end of first season of operation to avoid potential conflict with the complex operational environment at SCCT, including the completion of construction, development of parking plans and program start-up and to determine if any off season construction or re-design was required.

During construction of SCCT, Port management committed to a competitive process for the selection of a long-term operator of events at the facility and will begin planning of an appropriate selection process over the next few months. Staff will take into consideration various possible structures for operation of the Port's meeting and conference facilities that include Bell Harbor International Conference Center, World Trade Center Seattle, Maritime Event Center, and Smith Cove Cruise Terminal. This process will likely also include other services, such as dock management at both the SCCT and Bell Street Pier, as appropriate when existing lease provisions are taken into account. Our intent is to have the Request for Proposal completed, an operator selected, and a new agreement negotiated and approved by the Port Commission when the current management agreement with Columbia Hospitality, Inc. expires in May of 2012.

### **TERMS OF FIFTH AMENDMENT:**

The following are the changes that will be effected by this amendment:

- Extend premises so that CHI is allowed to manage events at SCCT on a non-exclusive basis
- Approves "Event Reimbursement Agreement" between CHI and CTA to cover CTA's costs of utilities and wear and tear on facility during events
- Port can still hold up to five events at SCCT without CHI management; CTA may use the premises consistent with the rights in the CTA lease
- Due to the short-term arrangement, the Port will not withhold or recognize Capital Reserve Funds that are intended for long-term repair and replacement of furniture, fixtures and equipment.
- Availability of parking at Terminal 91 for events:
  - Outside of cruise season: up to 800 spaces
  - During cruise season: no guarantee but a plan will be developed for each event.

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

January 20, 2010

Page 3 of 5

### **STRATEGIC OBJECTIVES:**

This action supports the Port's strategy of "Seaport Vitality" by increasing the net operating income through greater asset utilization providing for additional event space that would appeal to a broader range of users for events.

### **FINANCIAL ANALYSIS:**

#### **Source of Funds:**

There are no funds required from the Port.

#### **Financial Analysis Summary**

CIP Category	Revenue/Capacity Growth																				
Project Type	Business Expansion																				
Risk adjusted Discount rate	8.0%																				
Key risk factors	1) Anticipated cash flows from Smith Cove Cruise Terminal events are based on conservative financial projections provided by CHI. 2) Use of the Smith Cove Cruise Terminal for events could have a negative impact upon cruise operations. This risk is mitigated by the expertise of CHI in planning events around cruise operations, as done at Bell Street Pier.																				
Project cost for analysis	\$0																				
Business Unit (BU)	Portfolio Management, Real Estate Division																				
Effect on business performance	Effects on business performance are based on conservative financial projections provided by CHI and inclusive of fees to CHI noted below. <table border="1"><thead><tr><th><b>NOI (in \$000's)</b></th><th><b>2010</b></th><th><b>2011</b></th><th><b>2012</b></th><th><b>TOTAL</b></th></tr></thead><tbody><tr><td>Revenue</td><td>\$200</td><td>\$360</td><td>\$90</td><td>\$650</td></tr><tr><td>Expenses</td><td>(\$140)</td><td>(\$254)</td><td>(\$63)</td><td>(\$457)</td></tr><tr><td>NOI</td><td>\$60</td><td>\$106</td><td>\$27</td><td>\$193</td></tr></tbody></table> <p>Incremental income to CHI is estimated to be \$73,000 throughout the term of the agreement as a result of additional management fees and incentive management fees. As noted above, incremental income to the Port is estimated to be \$193,000 for the same time period.</p>	<b>NOI (in \$000's)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>TOTAL</b>	Revenue	\$200	\$360	\$90	\$650	Expenses	(\$140)	(\$254)	(\$63)	(\$457)	NOI	\$60	\$106	\$27	\$193
<b>NOI (in \$000's)</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>TOTAL</b>																	
Revenue	\$200	\$360	\$90	\$650																	
Expenses	(\$140)	(\$254)	(\$63)	(\$457)																	
NOI	\$60	\$106	\$27	\$193																	
IRR/NPV	<table border="1"><thead><tr><th><b>NPV (in \$000's)</b></th><th><b>IRR (%)</b></th></tr></thead><tbody><tr><td>\$168</td><td>N/A</td></tr></tbody></table>	<b>NPV (in \$000's)</b>	<b>IRR (%)</b>	\$168	N/A																
<b>NPV (in \$000's)</b>	<b>IRR (%)</b>																				
\$168	N/A																				

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

January 20, 2010

Page 4 of 5

### **NEXT STEPS:**

The management agreement with CHI expires May 31, 2012. It is the intention of the Port staff to commence with a formal Request for Proposal (RFP) in the 4<sup>th</sup> quarter of 2010.

### **ALTERNATIVES CONSIDERED /RECOMMENDED ACTION:**

Alternative Considered – Staff considered proceeding with a Request for Proposal but due to the complexity of the decisions that need to be made regarding the Port's portfolio of event and conference facilities the implications of competing for cruise terminal operations, dock management services, the time it takes to create and execute a well-developed RFP process, and the required start-up period for a potential new operator, staff believed that the remaining term on the management agreement was too short to allow for effective marketing and that potential revenue would be missed. Lead-time for large events often ranges from six months to a year in planning.

Recommended Action – The Preferred alternative is to approve an amendment of the Management Agreement with Columbia Hospitality, Inc. (CHI) for the Bell Harbor International Conference Center to include the Smith Cove Cruise Terminal as part of the extension premises under this agreement. Columbia Hospitality, Inc. is a seasoned event manager with a good working relationship with Cruise Terminals of America, the cruise terminal manager at Bell Street Pier and SCCT. CHI currently has two events tentatively scheduled pending the approval of this amendment.

### **OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:**

Fifth Amendment to the Management Agreement between the Port and Columbia Hospitality, Inc.

### **PREVIOUS COMMISSION ACTION OR BRIEFINGS:**

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. The 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 CHI for the management of the Port's Bell Harbor International Conference Center.

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

## **COMMISSION AGENDA**

Tay Yoshitani, Chief Executive Officer

January 20, 2010

Page 5 of 5

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 with Columbia Hospitality, Inc, to provide for Columbia Hospitality, Inc. to manage the day-to-day operations of the Odyssey Maritime Discovery Center and for Columbia Hospitality, Inc. to be exclusive beverage and caterer for event within the Odyssey Maritime Discovery Center space expiring on December 31, 2008.

On March 5, 2009, the Port Commission authorized the Chief Executive Officer to execute a Fourth Amendment to the Management Agreement with Columbia Hospitality, Inc. to in the Maritime Event Center at Bell Harbor (formally known as the Odyssey Maritime Discovery Center) as exclusive premises, and use those premises for event, meetings and catering. CHI is in the best position to market this space and book events immediately, providing revenue sooner than what the Port may receive in a delay choosing a third party vendor through the RFP process.

On January 5, 2010, the Port Commission was briefed on the proposed Fifth Amendment to the Bell Harbor International Conference Center Management Agreement.