

## POTENTIAL SALMON BAY MARINA ACQUISITION

### History of this Acquisition:

- Broker representing owners approached Port in March 2016 about potential acquisition.
- It's a complex urban property - 18 months of careful due diligence work has been completed.
- Negotiations are almost complete – sellers have agreed to Port \$ offer and sale conditions.

The industrially zoned property is an existing recreational marina immediately adjacent to the western edge of Fishermen's Terminal. 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 and replacement of docks D and E.

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 appraisal = \$17.1 Million)
Port deductions for brownfields remediation	\$1,157,000 (see detail below)
<b>Revised price</b>	<b>\$15,679,120</b>

### 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.

## Alternatives and Implications Considered

### Option One: 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)
  - 4.72% with rebuilt docks.
  - 5.55% with demolishing the docks.
- 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.
- 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 due to depth constraints without deeper dredging and constructing suitable fixed piers that would be prohibitively expensive. Newer fishing vessels have greater depths and longer lengths that require suitable pier space.

### Option Two: 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.

### Option Three: Do Nothing – Pass on Acquisition Opportunity

#### Pros

- 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 an 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.

### Dynamics

- This marina comes with:
  - Live-a-boards
  - Derelict Vessels – an estimated 10 to 20% of vessels appear to be derelict. As a condition of closing, the Port will require proof of seaworthiness and require vessels without proof to be removed. **We would not take ownership until these vessels are addressed.** There is potential for customer complaint.
  - Covered docks (that would need to be sprinklered immediately)
- The cost of dredging and building commercial docks for fishing vessels is prohibitive
- If adequately maintained the marina docks have a projected remaining life of 20 years. Docks D and E would ideally be replaced in 2 years in order to utilize the existing Master Use Permit. Replacing the docks to allow continued operation reduces the financial return on the Port's investment. Without replacement the Internal rate of return (IRR) is 5.55%; with dock replacement the IRR is 4.72%.

## **Financial Analysis Summary for Option 1 – Purchase the Marina**

The financial analysis includes both the acquisition of the property and development of a two-story 60,000 s.f. flex-industrial building with two scenarios for the marina in the future:

1. The marina is maintained and operated only for the remaining life of the docks (estimated at 5 years for 2 docks and 20 years for the other 3 docks), then the docks are removed.
2. The docks are replaced as needed and the marina continues operation.

### **Key assumptions:**

- The analysis period is 30 years with a terminal value included in year 30 to capture future revenues
- The uplands building revenues are based on leasing at \$24 per s.f., 95% occupancy
- Marina operating expenses include
  - 2 new FTEs, not currently budgeted (additional after hour staffing provided by existing employees at other facilities) - \$170,000 per year
  - Direct maintenance expense estimate of \$200,000 per year
- Operating lease and moorage rates and expenses increase 2.5% per year
  - if the marina docks are removed, those revenues and expenses are removed
  - if the dock are rebuilt, moorage would be open, not covered and the covered moorage premium is removed
- Construction costs increase 3.5% per year
- Capital costs (in current dollars) for each scenario:

### Base Costs for Both Scenarios (all costs in current dollars)

Property Acquisition	\$15,679,000
Initial site improvements	\$1,200,000
Uplands building construction	\$13,239,000
Year 30 building renovation	<u>\$1,953,000</u>
Subtotal	\$32,071,000

### Scenario #1 – Remove docks

Remove docks at end of useful life	\$1,519,000
Rebuild bulkhead	<u>\$2,238,000</u>
Subtotal for dock removal	<u>\$3,757,000</u>
TOTAL for Scenario #1	<b>\$35,828,000</b>

### Scenario #2 – Rebuild dock (with uncovered moorage)

Rebuild docks D&E & bulkhead 2 years (based on MUP)	\$5,879,000
Rebuild docks A,B & C & bulkhead in 20 years	\$13,910,000
Subtotal for dock rebuild	<u>\$19,789,000</u>
TOTAL for Scenario #2	<b>\$51,858,000</b>

**Financial Analysis results:**

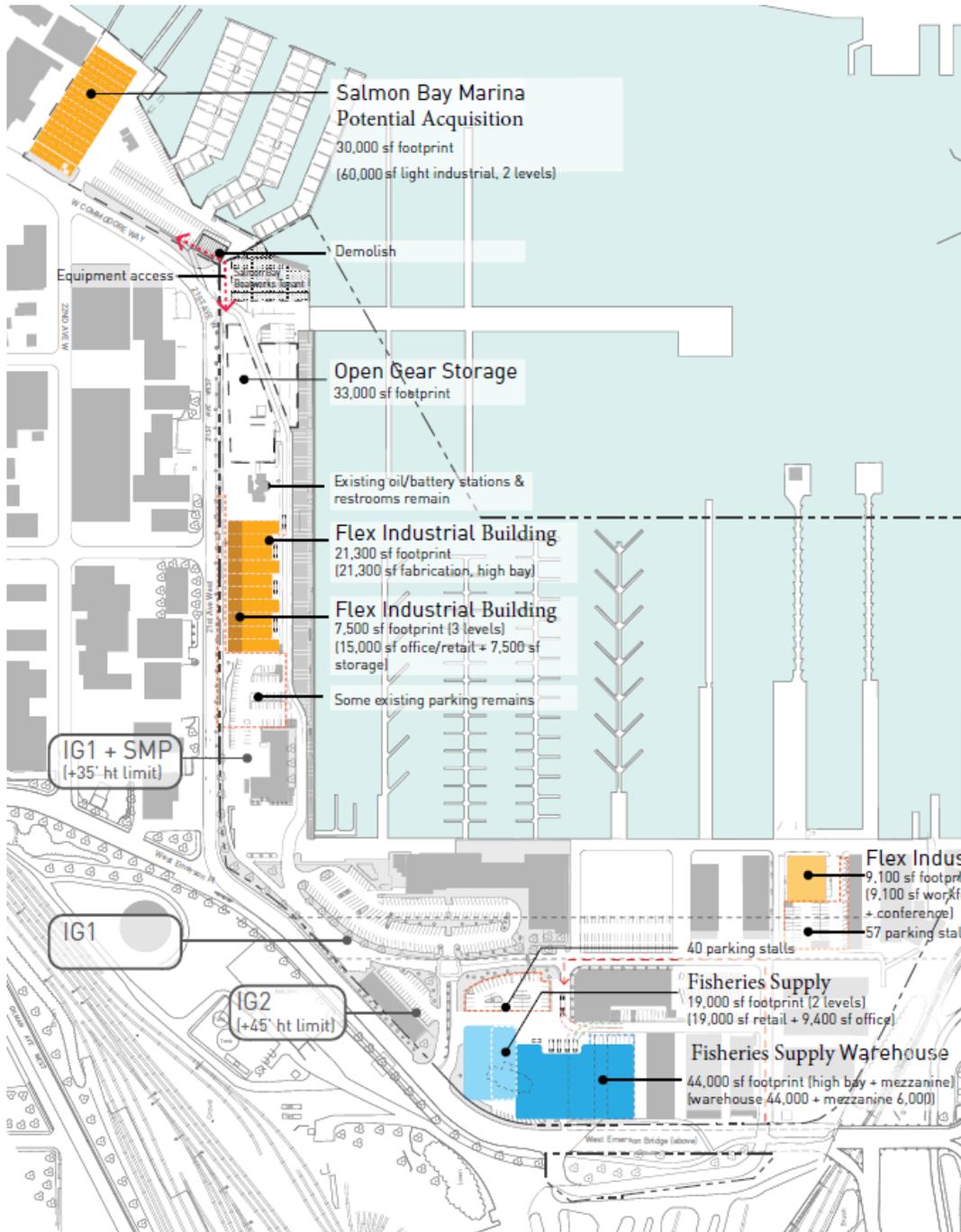
	<u>#1 Remove docks</u>	<u>#2 Rebuild docks</u>
Payback	19 years	> 30 years
IRR	5.55%	4.72%
Terminal value	\$30,979,000	\$37,783,000
Year 3 NOI after depreciation (1)	\$1,104,000	\$853,000
Year 10 NOI after depreciation (1)	\$1,558,000	\$1,438,000

(1) Based on incremental NOI, excludes allocated costs and therefore will differ from actual reported NOI

Note: results are made based on preliminary assumptions

Long standing management practice, which is evaluated periodically and updated earlier this year by the ELT, is to use a risk-adjusted target rate of return for Port investments. The base rate is the Port's average estimated cost of debt (currently 5.3%), which is considered a risk-free rate since debt can be defeased to create annual cash flow savings. Projects are then scored based on several criteria including security of revenues and the length of the payback period, and a risk premium is added based on the score.

For this project the target rate of return would be 8% based on its risk profile (especially a relatively long payback period). This is a target for information purposes only, and projects can still move forward based on other non-financial benefits. To compare to a risk-free alternative, the Port could use \$32 million to undertake early redemption of debt, increasing annual cash flow by over \$4 million per year, with a risk free return of 4.2% and a payback of 7 years.



## Fishermen's Terminal Redevelopment

West Wall: 43,800 sf (Flex-Industrial)  
44 Stalls On-site Parking  
33,000 Open Gear Storage

Gateway: 78,400 sf (BTS)  
40 Stalls On-site Parking

Ship Supply: 9,100 sf (Flex-Industrial)  
57 Stalls On-site Parking

Total Site Build-to-Suit Program = +/- 78,400 sf  
Total Site Flex-Industrial Program = +/- 52,900 sf

### FEATURES

All BTS program areas consolidated at Gateway  
(warehouse near office/retail)

Commercial street presence along 21st Ave

Visibility of BTS from Emerson & Main Entry

Rehab Historic Seattle Ship Supply building

### FACTORS

Loss of overall parking (99 stalls)  
Less 19 at West Wall site  
Less 80 at Gateway site

Large warehouse at entry to site

### FISHERMEN'S TERMINAL

Build-to-Suit Tenant  
Flex Industrial Tenant

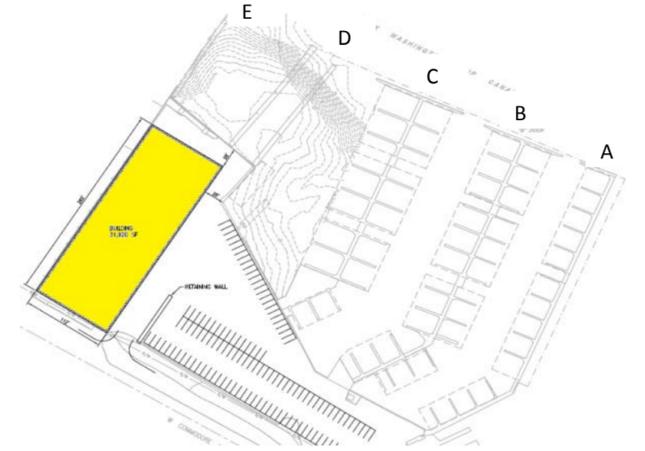


**Summary of SaBM Alternatives**

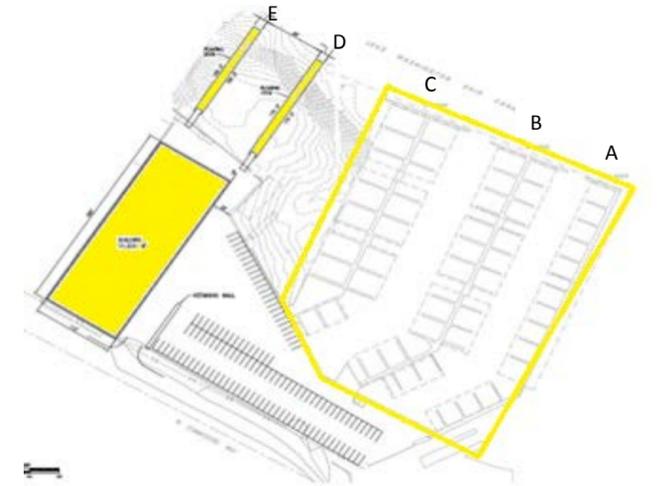
Based on 30 Year Cash Flow Forecast w/ Terminal Value  
11/8/2017

All Amounts in \$000  
Capital Outlays in today's \$s

<b>Uplands Development   No Docks Rebuilt</b>		<b>IRR: 5.55%</b>	<b>Payback: 19 years</b>																											
		<b>Year</b>																												
<b>Capital Outlays</b>	Today's Cost	0	1	2	3	4	5	6	7	8	9	10	15	20	25	30														
Acquisition Cost (includes Due Diligence and Initial Costs)	\$16,879	\$16,879																												
60K Light Industrial Building Construction	\$13,239	\$13,239																												
D&E Docks Demolition	\$190				\$225																									
ABC Docks Demolition	\$1,329													\$2,645																
Bulkhead Rebuild	\$2,238													\$4,453																
Light Industrial Building Update (roof, HVAC, paving, etc)	\$1,953															\$5,483														
NOI Before Depreciation		\$0	\$347	\$759	\$1,470	\$1,778	\$1,700	\$1,712	\$1,786	\$1,831	\$1,877	\$1,924	\$2,177	\$1,936	\$2,190	\$2,478														
<b>NOI After Depreciation</b>		\$0	\$312	\$393	\$1,104	\$1,412	\$1,334	\$1,346	\$1,420	\$1,465	\$1,511	\$1,558	\$1,811	\$2,037	\$1,637	\$1,925														
Terminal Value																\$30,979														



<b>Uplands Development   All Docks Rebuilt</b>		<b>IRR: 4.72%</b>	<b>Payback: &gt; 30 years</b>																											
		<b>Year</b>																												
<b>Capital Outlays</b>	Today's Cost	0	1	2	3	4	5	6	7	8	9	10	15	20	25	30														
Acquisition Cost (includes Due Diligence and Initial Costs)	\$16,879	\$16,879																												
60K Light Industrial Building Construction	\$13,239	\$13,239																												
D&E Docks & Bulkhead Rebuild	\$5,879			\$6,298																										
ABC Docks & Bulkhead Rebuild	\$13,910													\$27,678																
Light Industrial Building Update (roof, HVAC, paving, etc)	\$1,953															\$5,483														
NOI Before Depreciation		\$0	\$347	\$650	\$1,429	\$1,737	\$1,780	\$1,794	\$1,870	\$1,917	\$1,965	\$2,014	\$2,116	\$1,889	\$2,672	\$3,023														
<b>NOI After Depreciation</b>		\$0	\$312	\$74	\$853	\$1,161	\$1,204	\$1,218	\$1,294	\$1,341	\$1,389	\$1,438	\$1,540	\$390	\$1,208	\$1,559														
Terminal Value																\$37,783														



**SaBM Preliminary Development Assumptions Nov. 8, 2017**

\*\$ amounts shown in today's \$s

SBM: Shilshole Bay Marina

SaBM: Salmon Bay Marina

Line-Item/Assumption	Amount*	Source/Notes
<b>Capital Investments</b>		
Construction Cost Escalation	3.5%	Project Management - Average annual cost escalation for King County from 1978 to 2016 was 3.5%.
Purchase Price	\$15,679,120	Purchase & sale agreement
Due Diligence	\$300,000	\$300K authorized for C800993, approximately \$192K has been spend as of (11/09/17)
Fire Sprinkler System	\$700,000	Project Management estimate (9/19/17)
Site transfer costs	\$200,000	New sign, locks, safety equipment, etc. associated with initial Port ownership and operation - Maritime estimate (11/6/17)
<i>Uplands Development</i>		
60K SF Flex Industrial Building	\$13,239,000	Project Management estimate (11/8/17) - includes building construction, contaminated fill remediation, paving, utilities, stormwater, and lighting. To construct to LEED Gold Standards may require higher construction costs
Future Building Refresh	\$1,953,338	Project Management estimate (11/8/17) - includes roof replacement, painting, HVAC, and parking lot repairs expected in approx. year 30. Estimate includes a soft cost assumption of 21%.
<i>Dock Removal - No Replacement</i>		
D&E Docks	\$189,556	Demolition cost based on estimates from Reid Middleton for fixed and floating dock redevelopments. Includes engineering, tax, and contingency costs. (6/27/17)
A,B,C Docks	\$1,329,029	
Bulkhead	\$2,238,113	Site Inspection Report: "The overall condition of the bulkhead is Satisfactory. The bulkhead may have 15 to 20 years of remaining service life, provide the recommended repair and rehabilitation, including replacement of the damaged piles, is completed and the structure is properly maintained on a regular basis." Annual Maintenance expense does include cost estimates for piling repairs. Maritime confirmed bulkhead will need to be rebuilt with or without new docks (11/2/17) Based on Reid Middleton estimate (6/27/17). Includes engineering, tax, and contingency costs.
<i>Dock Replacement</i>		
D&E Docks Redeveloped to Two Floating Docks	\$5,879,000	Based on Reid Middleton estimate (6/27/17) for D&E redevelopment according to master use permit design. Includes demolition of old docks, new bulkhead, contaminated sediment dredging, and two new floating docks. Net loss of approximately 260 linear feet of moorage due to loss of one pier.
A,B,&C Docks Rebuilt	\$13,910,000	Project management estimate for ABC Dock redevelopment for uncovered recreational boating moorage. Includes demolition of old docks, new bulkhead, contaminated sediment dredging, and 3 new docks. Net loss of approximately 200 LF due to Port design standards.
<b>Revenue</b>		
<i>Rec Boating Moorage</i>		
Occupancy	90.0%	Average over the last eight years has been 94% for all POS Rec Boating Marinas. Assumes lower occupancy due to limited service life and needed repair work.
Moorage Rate Increase	2.5%	10-year average: Moorage rates at SBM have increased by 2.6% per year
Monthly Moorage	\$862,017	Rates based on Rec Boating rates for Fisherman's Terminal (FT Tariff). Revenue calculated based on total length of slip/berth consistent with SBM moorage calculations
Covered Moorage Premium	\$101,467	\$2.00/ft. premium applied in addition to covered linear feet. Assumption vetted with Rec Boating. If current covered moorage is rebuilt without coverage, premium would be reduced.

Guest/Daily Moorage	\$28,618	Assumed at 3% of monthly moorage revenues. SBM 7-year average is 3.3%
Kayak Storage	\$2,250	SBM rate applied to SaBM current number of customers

*Uplands Development*

Occupancy	95.0%	Estimate by RE Development at 95%. 7-year average for FT: 93.5% with a low of 86% in 2010.
Lease Rate	\$24.00	Annual NNN lease rate. Based on RE Development's discussions with brokers familiar with nearby flex industrial space. Does not include 12.84% leasehold occupancy tax.
Tenant Improvements	\$10/sf initial	RE Development estimate. \$5/sf for 10% of the space every 5 years

**Expenses**

*Rec Boating*

Annual Increase	2.5%	Standard assumption used in forecasting for non-employee related expenses. 7-year average: SBM expenses have increase 5%+ per year, needs further review.
Allocated expenses		This analysis does not include allocated expenses
Employee Expenses	\$170,000	Two staff at Grade 17 (midpoint \$60K) + 40% Benefits = \$84K x 2 people = \$168K/year
Utilities	4% of marina revenues	Ratio from International Marina Institute information. SBM 7-year average is 3.9% of moorage revenues.

*Uplands Building*

Property management	\$30,000	Estimate - roughly based on 2016 direct charges to MIC & SBM Uplands
Utilities	\$10,000	4% of revenues based on IMI/MA Report

*Maintenance*

Marina	\$200,000	Marine Maintenance estimate
Uplands	\$40,000	Estimate/placeholder. All leases NNN (tenant is responsible for maintenance)



## Salmon Bay Marina Due Diligence Summary

7-20-17

Port of Seattle Staff	
Seaport Project Mgmt:	Tim Leonard, Rick Jenkins, Amy Kiessling, Mike Dyer
Environmental:	Roy Kuroiwa, Paul Meyer, Mathew Mateo
CPO:	Tamara Hamel, Sofia Mayo
Maritime:	Kenny Lyles, Ray Giometti
Recreational Marina:	Tracy McKendry, Giuseppe Alvarado
Engineering:	Chris Caudill, Jeremia Connor, Atilla Laszlo , Dan Lindsey, Sam Asavareunchai, Randy Sweet
Marine Maintenance:	Jeff Gunn, George Washington, Blair Friedt, Alex Niccoli, & John Hall
Risk Management:	Jeff Hollingsworth
Economic Development:	Dave McFadden, Jeffrey Utterback, Daniel Alhadeff
Legal and Insurance:	Isabel Safora, Elizabeth Black
Finance:	Kelly Zupan, Tyler Cooley

### **Tasks Performed**

- and cost estimates
- Any DNR lease related documents or correspondence
- Marina sediment probe surveys, sediment characterizations and dredge estimates (DOR, Gravity, Pentec, SAIC and PND)
- Site sediment core or surface sediment test results (physical and chemistry) and reports
- Dredge characterization results and reports
- Environmental assessment reports, such as Phase I or II Site Assessments.

- Records of UST operation and closure
- Cleanup documents related to the adjacent Marco property (that relate to work on the marina)
- Waste management and disposal records
- Hazardous building materials assessment or notices (asbestos, lead-based paint, etc.)
- Water quality monitoring results and reports
- Biological Evaluation and all permits received (HPA, Corps permit)
- Rent roll for previous 5 years
- Insurance policies
- Previous environmental studies
- MUP Permit
- COE Permits
- Performed site inspection and general condition assessment of existing facility docks, structures, pavement, and utility systems including electrical, mechanical, stormwater, sanitary sewer, and water main.
- Prepare report summarizing site inspection findings and recommendations regarding any future improvements required in short-term and long-term by Port

## **Consultants**

Reid Middleton Engineering	(Technical)
Sound Earth Strategies	(Environmental)
Echelon Diving	(In-water condition assessment)
Geotech Engineers	(Geology and Hydrology)
Clark Nuber	(Financial)
Miller Nash Graham & Dunn LLP	(Legal and Insurance)
Kidder Mathews	(Appraisal)

## **Tasks Performed**

- Reviewed of existing facility information and records (listed above) from seller
- Prepared ASTM E1527-13-compliant Phase I Environmental Site Assessment for the Property including a review of selected historical sources, collection and review of aerial photographs, research and review of state and federal regulatory databases to obtain pertinent sediment data for locality, reconnaissance of the property, and preparation of a written report including a compilation of existing data and information.
- Conducted a walk-through visual hazmat survey of the site to document suspect regulated building materials (asbestos, lead-based paint, mercury- and PCB-containing components) and provided description of the suspected regulated materials that were identified during the site visit and provide a rough order of magnitude abatement estimate as a simple table.
- Prepared and compiled existing site data and information to establish base map including infrastructure, outfalls, bulkhead, fill activity, environmental conditions summary, and other applicable environmental or regulatory conditions and features.
- Researched Ecology, Department of Natural Resources, and EPA files for Lake Union sediment quality assessments and surveys to identify studies with data pertinent to the Salmon Bay Area.
- Prepared and compiled known and available existing sediment site data and information and present sample locations on a figure for discussion purposes.
- Reviewed the above data and identified sediment areas which exceed applicable freshwater sediment cleanup standards.
- Prepared a scope of work and a health and safety plan for a Phase II subsurface

- Investigation in conjunction with the geotechnical borings conducted, collected soil samples and reconnaissance groundwater samples.
- Analyzed soil and groundwater samples for the following: RCRA 8 metals; gasoline-, diesel-, and oil-range petroleum hydrocarbons; volatile organic compounds; and chlorinated solvents.
- Coordination of subcontracted drilling and utility locate services
- Perform dive survey of undersides of docks, underwater piling, and bulkhead
- Prepare summary report of findings
- Prepare a preliminary geotechnical report that will include the results of the field explorations, boring logs, site plan showing the boring locations, and preliminary conclusions and recommendations for the geotechnical design elements
- Perform condition assessment of docks, and waterfront facility elements
- Attend coordination meetings with Port of Seattle
- Prepare conceptual design exhibits for potential docks reconfigurations for large fishing vessels
- Prepare preliminary cost estimates for concept docks replacement and reconfiguration related improvements for large fishing vessels