



**COMMISSION
AGENDA MEMORANDUM**

Item No. 8a

ACTION ITEM

Date of Meeting March 12, 2019

DATE: February 21, 2019 **(Revised March 12, 2019)**

TO: Stephen P. Metruck, Executive Director

FROM: Stephanie Jones Stebbins, Managing Director, Maritime Division
Mike McLaughlin, Director, Cruise Operations
Elizabeth Morrison, Director, Corporate Finance
Lindsay Wolpa, Project Advisor, Regional Government Relations Manager

SUBJECT: Principles for Cruise Development and Update on New Cruise Terminal

ACTION REQUESTED

Request Commission adoption of Motion 2019-02 – principles for cruise business development.

EXECUTIVE SUMMARY

The Principles of Cruise Development will help guide the development of a new cruise terminal, growth of the Port’s cruise business and how prospective partners and other stakeholders will be expected to engage with the new terminal project and future operations. Through the RFQ, the Port of Seattle is seeking a partner for the development and operation of a new, single berth cruise facility at Terminal 46. This RFQ is the first step in a partnership selection process.

BACKGROUND

The Port of Seattle’s cruise program supports statewide efforts to expand tourism-related economic activity. The Dean Runyon Associates 2017 Report for the Washington Tourism Alliance found that tourism is the fourth largest economic sector in Washington. A **2017** survey of cruise passengers for the Port of Seattle found that 90 percent of **a target group of guests will spend a night in Seattle – the research indicated that 54 percent of all cruise guests overnighted in Seattle. The specific survey target group was all non-Washington residents who stayed for at least four hours before or after their voyage.** Further, cruise passengers spend on average \$850 per party for pre-cruise and \$697 in post-cruise. The Port of Seattle drives additional cruise-related economic activity through marketing and economic development partnerships that encourage cruise passengers to extend their stay in Seattle and Washington state, which supports many different businesses throughout the state and region.

Since 1999, Seattle has grown to be the premier U.S. West Coast cruise port in number of passengers, with 11 homeport vessels (handling departure sailings), and nine port of call vessels during our 2018 season at Port’s existing cruise terminals, the Smith Cove Cruise Terminal at Pier 91 and the Bell Street Pier Cruise Terminal at Pier 66.

The Port of Seattle is proud to operate the most environmentally progressive homeport in North America. Through innovative commitments to clean water and clean energy, the Port and its partners continue to pursue strategies that emphasize healthy communities and habitats in and around our working waterfront.

There are several reasons that Seattle has become the hub for Alaska cruising. Our natural deep-water port can accommodate some of the largest vessels in the world, award-winning and world-class cruise facilities can accommodate large volumes of passengers, the cruise terminals emphasize spectacular settings, and provide easy access to Sea-Tac Airport; all contributing to creating our competitive edge.

The Port of Seattle Commission identified the development of a new facility as a priority capital investment because the Port can leverage the positive financial return of the cruise business to support a diverse maritime economy. In addition, cruise passenger demand continues to expand – a new terminal will support that demand. Preliminary capital planning estimated that this project could be delivered at approximately \$200 million. A public-private-partnership can reduce risk to the Port and limit its funding to \$100 million, among other benefits.

This project strongly supports the Century Agenda, through the strategy to “advance this region as a leading tourism destination” and the objective to “double the economic value of cruise traffic to Washington state.” In support, the Port has developed a set of guiding principles for its cruise business which can be applied to development and operation of an additional cruise facility as well as the growth of our business.

With the pending decision of the Northwest Seaport Alliance (NWSA) regarding the Terminal 5 Modernization Project, the opportunity to move this new cruise terminal project forward becomes feasible at Terminal 46. Port staff will continue to work in collaboration with NWSA staff to advance this project.

Staff determined that it may be advantageous to conduct a competitive selection process for a private partner who can take a lead role on some aspects of the development of a new cruise terminal, operate and maintain the facility under a long-term agreement and be a source of capital funding to the project.

Staff is recommending a public-private-partnership (P3) approach. P3 is an opportunity to optimize results by allocating risks and costs between parties as appropriate. Using this approach, the Port would expect to assume responsibility for certain project elements such as permitting and environmental review. The private partner would likely assume responsibility for construction of the terminal building based on whatever requirements the Port may choose. Staff has developed a process to select a partner that is transparent and fair and that will best achieve the Port’s principles through a competitive selection.

OUTREACH

Port staff has already begun to engage various stakeholders around this project from our partners in the maritime and industrial sectors to the neighboring sports teams to various neighborhood and business groups. As the project progresses, we will coordinate community meetings, open houses and tours, provide informational presentations at relevant organization gatherings and other means to ensure the public is well informed about the project.

Celebrating “20 Years of Cruise” in the Seattle harbor also provides a relevant complement to this work as our 20th anniversary will highlight many of the benefits that the growing industry has brought to the region. A robust outreach program will continue throughout project development and into operations.

PRINCIPLES FOR CRUISE BUSINESS DEVELOPMENT

In consultation with the Port of Seattle Commission and the Executive Director, staff developed a set of principles to guide the growth of our cruise business and the selection process for a cruise development partner, including the upcoming release of the Request for Qualifications. The principles will also guide future agreements at the Smith Cove Terminal. The principles reflect the Port of Seattle’s Century Agenda goal to strengthen this region as a leading tourism destination and double the economic value of cruise, while maintaining the Port’s triple bottom line – balancing environmental, financial, and societal goals. More specifically, in the draft principles, a new cruise terminal must meet our own standards for providing local economic benefit and continuing to raise the bar on environmental sustainability.

These principles were initially developed early in project planning to guide our approach to this project and the Port’s entire cruise business – they have been continually refined throughout the process. The principles will guide our future partner’s approach as well as other stakeholders engaged with the development. At the March 12 meeting, staff is seeking adoption of these principles. The proposed draft of the Motion is attached for review and consideration.

ANTICIPATED TIMELINE

The following list includes key milestones for the new cruise terminal. It is important to note that the schedule is somewhat fluid, and staff expects shifts in the timeline as the project moves forward.

- **Fall 2018:** Staff met with several cruise market participants to determine the validity of adding a fourth cruise berth.
- **Today:** staff will seek adoption of the Principles of Cruise Business Development motion.
- **March 13:** Staff plans to release the RFQ to the public to officially kick-off the process to secure a partner.
- **March 26:** Staff will request early site planning and design funds for the new terminal.

- **Mid to late April:** RFQ responses will be due from proposers. There will be an opportunity for proposers to ask questions and seek clarifications prior to this deadline.
- **Late Spring:** Begin selection of partner from short list.
- **Summer:** Best and final offers, select preferred partner.
- **Early Fall:** Based on the current schedule, we anticipate that the Port will launch environmental review process around this period. The Port and the NWSA will enter into a final interlocal agreement for the Port’s use of a portion of Terminal 46.
- **Fall/Winter 2019:** We will work to finalize agreement around this period.
- **Late Spring 2022:** Based on our market sensing, we will still target project delivery for the 2022 cruise season, but will not sacrifice the quality of the project or agreement with a new partner to make this timeframe and may recommend a 2023 delivery.

ATTACHMENTS TO THIS BRIEFING

- (1) Draft Motion 2019-02 – Principles for Cruise Business Development
- (2) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

November 7, 2018 – The Commission was briefed on the proposed new cruise terminal (among other capital projects) at a study session. The session’s topic was specifically the 2019 five-year Capital Improvement plan for the Maritime and Economic Development Divisions.