



**COMMISSION
AGENDA MEMORANDUM**

Item No. 6h

ACTION ITEM

Date of Meeting October 22, 2019

DATE: October 4, 2019
TO: Stephen P. Metruck, Executive Director
FROM: Michael McLaughlin, Director Cruise Operations
Marie Ellingson, Cruise Services Manager
SUBJECT: Fourth Amendment to Cruise Facility Lease Agreement with
Cruise Terminals of America (CTA)

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute the Fourth Amendment to the Cruise Facility Lease Agreement with Cruise Terminals of America for Smith Cove Cruise Terminal at Terminal 91 substantially as described in this agenda memorandum. The amended and restated lease would continue the current agreement for two years with two additional one-year extension options at the port's discretion.

EXECUTIVE SUMMARY

The current lease agreement with CTA, which commenced in 2005, includes Smith Cove Cruise Terminal at Terminal 91. The agreement was amended and restated in 2015 to remove Bell Street Cruise Terminal at Pier 66. The Port has contracted with CTA to manage cruise operations since 2000 when the port began its homeport cruise business. CTA has been an important partner in the Port's success in the cruise business.

As the Port continues to grow our cruise business and develop a new cruise terminal, maintaining consistent operations and continually improving customer service at our current terminals is key. As the Port's cruise terminal operator, CTA has done an excellent job of meeting cruise ship schedules with outstanding customer ratings. They run a safe and secure terminal and pier operation and maintain cruise facilities in compliance with the lease. They are in good standing with the United States Coast Guard and Customs and Border Protection and have a full understanding of regulatory requirements.

JUSTIFICATION

The term of this amendment is aligned with the remaining term and options to extend as defined in the Port's current preferential berthing agreements and the target opening of the new cruise terminal proposed at Terminal 46. This timing allows the Maritime Division to approach the future development of the Port's cruise business in a more strategic manner.

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Should the port decide to compete the terminal management at this time, the Port may not successfully negotiate terms that would realize the same financial return for a short-term agreement and may experience a low level of interest in a short-term opportunity.

DETAILS

The basic terms of the existing agreement remain the same. Changes include extension of lease period as described in the action requested and the following:

Additional sections to Article 14 (Compliance with Environmental Laws) incorporates language on continued implementation of the Best Management Practices, Stormwater Management and Environmental Covenant consistent with other current port agreements.

Required Security in section 5.1 will be updated from three hundred thousand dollars (\$300,000) to three million five hundred dollars (\$3,500,000) to meet current port policy and state requirements.

Additional language has been added regarding tenant's responsibility of providing courtesy shuttle service of passengers at the terminal to meet the needs of growing cruise operations. CTA provides shuttle services between terminal building, parking facilities and App-Based Ride Share Hub.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not amend the lease. The current lease with CTA will expire in December 2019. This would require the Port to seek a new terminal operator for the 2020 cruise season and beyond and negotiate a new agreement.

Cost Implications: unclear what the financial implications would be.

Pros:

- (1) The Port issuing an RFP for a new terminal operator would open an opportunity for a new organization.

Cons:

- (1) The Port may not successfully negotiate terms that would realize the same financial return for a short-term agreement. May experience a low level of interest in a short-term opportunity.
- (2) The new operator would need to learn the terminal and operation, put new measures in place to meet regulatory requirements such as the terminal security plan, and execute new agreements for security, transportation, vendors, etc.

This is not the recommended alternative.

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Alternative 2 – Approve the Fourth Amendment to the Cruise Facility Lease Agreement.

Cost Implications: Obligates the port for \$25,000 additional maintenance allowance. Port retains approval of use of maintenance allowance expenditures.

Pros:

- (1) Approval of the fourth amendment ensures consistency in operations and regulatory compliance and continues efforts to exceed our customers' expectation and high standards of the cruise industry.
- (2) Allows for flexibility and increases options for the Port's cruise business development plan in the future.
- (3) Aligns future decisions to be more holistic for the port's future cruise business regarding cruise terminal operations at Terminal 91 and projected date of opening a new cruise terminal at Terminal 46.

Cons:

- (1) This action is not consistent with previous recommendations provided to staff from Commission at the approval of 2nd amendment to exercise option to extend term for seven years (2013-2019 cruise seasons) Recommendation then was to have a competitive solicitation for next terminal operator starting in 2020, although the ports cruise business has significantly changed over this period with expectation of continued growth creating opportunity for others with the addition of a new proposed cruise facility at Terminal 46.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

The CTA agreement is structured as a revenue-sharing lease. CTA collects the passenger and dockage fees (per Marine Terminal Tariff No. 5) from the cruise lines, and the Port bills CTA for its share of the fee revenue. The Port's revenue-share remains the same in this fourth lease amendment.

The Port provides CTA with annual allowances for use in meeting their repair and maintenance obligations. These allowances include a Maintenance Allowance of \$75,000, a Capital Allowance of \$200,000, and a Per Passenger Allowance of \$0.08 per passenger up to 5 million passengers then \$0.05 per passenger thereafter.

ATTACHMENTS TO THIS REQUEST

Draft Fourth Amendment to the Cruise Facility Lease Agreement.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- August 11, 2015 – Commission approved the Amended and Restated Cruise Terminal Lease to remove Pier 66.
- September 11, 2012 – The Commission authorized the Second Amendment to the Cruise Facility Lease Agreement exercising the option to extend seven years: 2013-2019

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- April 11, 2006 – The Commission approved the First Amendment to the Cruise Facility Lease Agreement to incorporate future move from Terminal 30 to Terminal 91.
- December 11, 2005 – The Commission authorized the execution of the Cruise Facility Lease Agreement: 2006-2012
- Management Agreement between the Port of Seattle and Cruise Terminals of America in place 2000-2005