



**COMMISSION
AGENDA MEMORANDUM**

Item No. 10a

ACTION ITEM

Date of Meeting December 8, 2020

DATE: December 1, 2020

TO: Stephen P. Metruck, Executive Director

FROM: Dave McFadden, Managing Director Economic Development
Stephanie Jones-Stebbins, Managing Director Maritime Division
Kyra Lise, Director Real Estate Development
Elena Franks, Capital Project Manager

SUBJECT: Fishermen’s Terminal Development Program - Maritime Innovation Center (CIP #C801084)

Amount of this request: \$0

Total estimated project cost: \$16,000,000

ACTION REQUESTED

Request Commission authorization for the Executive Director to:

- (1) Execute an Interagency Agreement with the Washington State Department of Commerce for the \$5,000,000 grant offered by the Clean Energy Fund Program to fund Fishermen’s Terminal (FT) Maritime Innovation Center (MInC).
- (2) Authorize Construction of the Maritime Innovation Center, which is the condition for executing the Interagency Agreement with Washington State Department of Commerce.

There is no request for funding associated with this authorization at this time. Staff will add an additional authorization step for the MInC and come back to the Commission to authorize bid and funding for the project when design work is finished, and we are ready to start construction. This extra step protects the Port’s interest in the event unforeseen challenges impact development of the historic Ship Supply Building.

EXECUTIVE SUMMARY

As part of efforts to redevelop Fishermen’s Terminal, staff is working to develop a Maritime Innovation Center that will help the region’s maritime industry adopt advanced technologies and stimulate innovative entrepreneurship. Successful innovation centers can help sustain maritime industries and help modernize operations and key lines of business. This is a significant opportunity for the region:

- The global “Ocean Economy” is growing. It is valued on a conservative basis by the Organization for Economic Cooperation and Development (OECD) at \$1.5 trillion (2010) and growing to \$3.0 trillion by 2030;

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- The Seattle region is rich in maritime resources and heritage, but this is under recognized by the general public and policy makers being overshadowed by high-tech. The maritime industry is also not particularly innovative;
- Public and private partners are interested in the Maritime Innovation Center as focal point to help advance: 1) electrification; 2) ship and vessel design innovation; 3) marine renewables; and 4) seafood product development;
- Promoting knowledge transfer, business incubation, and workforce development are the biggest needs in terms of addressing maritime innovation challenges (and opportunities).

In 2018 the Port worked with the Department of Commerce to secure a state capital appropriation of \$5,000,000 to help fund development of the Maritime Innovation Center. The Department of Commerce is now prepared to grant \$5,000,000 to the Port of Seattle through an Interagency Agreement. Commerce requires the Port of Seattle's Commission's Authorization of Construction as a condition for executing the agreement. While there have been multiple years of pre-work leading up to executing this contract, it is Commerce's preference to execute it by the end of 2020 in order to move this project forward in a timely manner in 2021.

The approval of the requested authorization will support the completion of the renovation and historic restoration of the Port's former Seattle Ship Supply Building to house the approximately 15,000 SF Maritime Innovation Center: a home port business incubator to support the work of the Maritime Blue Accelerator, in formal partnership with the State of Washington's Department of Commerce.

With this project the Port is also committing to showcase a sustainable and productive maritime economy that protects the very fishing industry it serves, in alignment with the Port of Seattle's Century Agenda goals to support and strengthen the region's economy, while maintaining the Port's triple bottom line – balancing environmental, financial, and societal goals.

Prior to coming to the Commission for MInC design funding in April 2019, the Port:

- Completed a feasibility study in 2018 to garner community input on maritime innovation, identify potential facility services, operating options, space and physical planning considerations and facility revenue/expense assumptions.
- Created an advisory committee to guide development of maritime innovation center;
- Contracted with DNVGL to update MInC business plan including revised revenue/expense projections, preferred site/location analyses, and recommended operating benchmarks'

At this point the Port has advanced the following MInC design work:

- Conducted an Eco-Charette to provide context for a comprehensive evaluation of preferred sustainability objectives for the various projects within the FT Redevelopment program.
- Completed 30% design and completed an updated project cost estimate based on the 30% building designs and preferred sustainability options.

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- Presented alternative designs and recommendations to the Energy and Sustainability Committee at 30% design.
- Determined a series of feasible environmental sustainability objectives that have been incorporated into the project's construction scope while nearing completion of 60% Design.

JUSTIFICATION

The Maritime Innovation Center project is designed to help foster innovation and showcase the region's maritime sector's start-up ecosystems using advanced technologies. The redevelopment of the former Seattle Ship Supply building, the oldest building in the Port's existing portfolio, is designed to achieve the highest level of sustainable design and construction through earning a Living Building Challenge (LBC) certification.

Pursuing LBC with this project, the Port is committing to showcase a sustainable and productive maritime economy that protects the very fishing industry it serves, in alignment with the Port of Seattle's Century Agenda goals to support and strengthen the region's economy, while maintaining the Port's triple bottom line –balancing environmental, financial, and societal goals.

While there may be additional, up-front capital costs to invest in some of these efficient building systems, their lifetime efficiencies will reduce operational costs. Supporting resources from the Clean Energy Fund will help make it possible to not only invest in a climate-smart building for the Port, but perhaps more importantly, will represent a shift in the maritime industry and show other ports what is possible now.

By taking this action, the Port Commission is committing to complete the construction of the Maritime Innovation Center, and formally entering a financial partnership with the Washington State Department of Commerce, without allocating new resources at this time. Staff will return to the Commission once the project is fully designed, and estimates refined to factor more exact economic condition information into costs, to request funds to construct.

There are several strategic advantages to accepting additional source of capital support in the form of a State grant:

- Continue a successful collaboration with the State of Washington's Commerce Division to create the Maritime Innovation Center in the former Ship Supply Building.
- Fully realize the potential of the Port's investment in the Maritime Blue Accelerator by the Port's Economic Development Division, the goal of which is to increase the level of support to innovative start-ups in the Maritime sector for years to come.
- Contribute to the Port of Seattle's Century Agenda in supporting and strengthening the region's economy, while maintaining the Port's triple bottom line – balancing environmental, financial, and societal goals.
- Support the recovery of the maritime sector as we move out of the economic crisis brought on by COVID-19 global pandemic.

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DETAILS***Scope of Work***

The Port of Seattle is developing a business incubator at Fishermen’s Terminal that can support and drive innovation within the maritime sector. They have chosen the 100+ year old Seattle Ship Supply Building for the new home for this incubator, transforming it into a resilient, sustainable facility that can support both entrepreneurs and established companies for the next 100 years. Fishermen’s Terminal is in one of the few remaining industrial areas within the city of Seattle at Ballard-Interbay, directly west of the Ballard Bridge and east of the Hiram M. Chittenden Locks along the Lake Washington Ship Canal. The North Pacific commercial fishing fleet operates out of the freshwater terminal.

Built in 1918, the Seattle Ship Supply Building (Maritime Innovation Center) is one of the oldest structures on the Fishermen’s Terminal site. The original building’s heavy timber structure is a classical basilica form with a central two-story nave and gable roof, flanked by two side shed structures. At over 45 FT at the top of the gable, Seattle Ship Supply is the tallest existing building on the Fishermen’s Terminal site and is prominently visible from the Ballard Bridge. The existing building suffers from years of ad hoc modifications and needs substantial improvements to meet current building codes.

The Port recognizes the potential to honor the history of Fishermen’s Terminal by restoring and enhancing the original structure and providing spaces that support the next generation inventions that drive the competitiveness of Washington State’s Blue Economy. The building will provide approximately 14,000 SF of light industrial spaces, meeting rooms, classrooms and event space that will bring together leaders from education, industry, and government to address both challenges and opportunities within the maritime cluster. The facility will provide classes, technical assistance, and research and development that ultimately helps the industry innovate and sustain its competitive advantage. With the goal of being “the greenest and most energy-efficient port in North America” the Port of Seattle has set ambitious but achievable targets in energy efficiency, stormwater management and emissions reduction. To meet these goals while setting a new standard of environmentally sustainable development for ports around the world, Fishermen’s Terminal is pursuing the world’s most rigorous green building certification – The Living Building Challenge.

A holistic and performance-based rating system, the LBC requires projects create regenerative buildings that address site, water, energy, materials and even equity related challenges. Certification is only awarded once a building has proven its net positive energy and water performance after a year’s worth of building operations.

Below are just some of sustainable features of The Fishermen’s Terminal project.

To achieve net positive energy and reduce emissions:

- On-site photovoltaic energy production

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- No combustion, all-electric building operation to support greenhouse gas reduction
- Battery backup system to add resiliency for facility operations
- Electric vehicle charging stations, bike parking and shower facilities

To demonstrate the commitment to restoring water quality and improving aquatic life on industrial property:

- On-site stormwater treatment and detention
- Rainwater catchment for irrigation, toilet flushing and potable water use
- On-site grey water and black water treatment

To improve the health and wellbeing of our community:

- Daylighting and natural ventilation to reduce energy demand and provide a healthier interior environment
- Reduced chemicals of concern
- Biophilic design that incorporates strategies to enhance the human/nature connection and reinforces the connection to place
- Community education and outreach
- Urban agriculture

To reduce emissions and build toward the circular economy

- Reclaimed and FSC-certified wood Regional materials
- Landfill waste diversion
- Equitable and diverse workforce

Tenancy

The Maritime Innovation Center is proposed to be tenanted by the Maritime Blue Accelerator project and other relatively small anchor tenants not yet identified. The master tenant shall run the Maritime Innovation Center as a business incubator; complete with services and support for an ongoing set of cohorts of maritime focused enterprises. Subtenants may also be allowed under the master tenant contract. Selection of the master tenant will be timed in co-ordination with the construction timetable for the Maritime Innovation Center such that occupancy can begin with the issuance of an Occupancy Permit by the City of Seattle.

Diversity in Contracting

The LBC is comprised of seven performance areas, or “Petals”: Materials, Site, Water, Energy, Health, Equity, and Beauty. The LBC now has ten Core Imperatives that address the fundamental tenets of each Petal; all the Core Imperatives are required for Petal Certification. Inclusion is a new imperative addressing diversity in hiring and access to training compliance. This establishes

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the requirement to include diverse stakeholders from vulnerable or disadvantaged populations in the design, construction, operations and maintenance phases at the following levels:

- 20% of design contract and/or construction contracts, and 10% of maintenance contracts must be with JUST organizations that meet required levels for Diversity category, or are registered Minority, Women, or Disadvantaged Business Enterprises (MWDDBE) organizations, or international equivalent.
- Workforce development/training/community benefits agreements, registered apprentice programs, and similar programs are employed for 10% of the General Contractor's project contracts and/or maintenance contracts.

This imperative may be also satisfied through a donation to appropriate groups that meet the intent.

Meeting this imperative supports the Port of Seattle's goal to triple the number of WMBE firms that contract with the Port and increase the percentage of dollars spent on WMBE contracts to 15 percent within 5 years of program implementation of the Diversity in Contracting Program.

Community Outreach and Communications

Initial community outreach and engagement around the Maritime Innovation Center and the Gateway Building unfolded during the Port's Fishermen's Terminal Master Planning process in 2016 and 2017. Staff hosted multiple planning sessions, open houses and stakeholder meetings as part of developing new plans for FT. During the process, stakeholders cited a need for light industrial facilities with smaller spaces for maritime manufacturers and suppliers. Several participants also suggested that FT develop space for meeting rooms/conference center.

Extensive outreach and engagement also supported the Maritime Innovation Center planning project (2016 and 2017):

- Hosted a Strength, Weakness, Opportunities and Threats (SWOT) workshop with 25 maritime stakeholders
- Developed an online survey that solicited input from 150+ stakeholders
- Hosted outreach meetings with partners in Anacortes and Port Hadlock
- Interviewed 35 Maritime stakeholders (28 distinct organizations)
- Facilitated a design eco-charrette focused on adaptive reuse of the Port's Ship Supply building

As the Maritime Innovation Center plan was completed, the state's Maritime Blue initiative started. It generated significant outreach and engagement in 2018 and the Maritime Innovation Center was a central part of the strategy they shared with hundreds of maritime and community stakeholders.

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Schedule

Activity

Commission design authorization (initial FT Development design)	2016 Quarter 4
Shoreline and Building Permits from SDCI	2021 Quarter 4
Commission construction authorization	2021 Quarter 4
Construction start	2022 Quarter 3
In-use date	2023 Quarter 4

Cost Breakdown

	This Request	Total Project
Design/Permitting	\$0	\$2,150,000
Construction	\$0	\$13,850,000
Total	\$0	\$16,000,000

SUSTAINABLE EVALUATION FRAMEWORK

The FT Development project was identified as a priority pilot project for the Sustainable Evaluation Framework. Miller Hull Partnership was hired to serve as designer and sustainability facilitator. Three meetings were held in August and September between consultants and the Port of Seattle project staff to create a project vision and identify opportunities. An eco-charette was held on October 10, 2019 with various representatives from across the Port to identify preferred project goals, targets, and priorities. The identified goals and strategies through the charette were innovation, resilience, jobs/workforce, legacy/future, process, water, energy, carbon, and health/materials.

Project goals and strategies were incorporated into design alternatives and evaluated further. The sustainable design goals, alternatives, and recommendations were presented to project Sponsors and to the Energy and Sustainability Committee on June 16th. Based on the recommended design strategies, the Maritime Innovation Project is targeting LBC Certification.

The project team is moving forward with refining design and costs. Further design decisions will be incorporated into a final “Sustainable Design Strategy” for the Maritime Innovation Center will be provided to Commission before the construction funding authorization.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do nothing: pass on Authorization for Construction and associated grant and execution of the Washington State Department of Commerce Clean Energy Fund Interagency Agreement.

Cost Implications:

Loss of \$5,000,000 State funding towards completion of Maritime Innovation Center project.

Pros:

None.

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Cons:

- (1) Jeopardizes financial partnership with the State of Washington, for regional innovation initiative and achieve Port objectives of advancing maritime industry.

This is NOT the recommended alternative.

Alternative 2 – Postpone Authorization for Construction to when Design and Permitting are close to completion (est. 2021 Quarter 4).

Cost Implications:

Loss of \$5,000,000 State funding towards completion of Maritime Innovation Center project.

Pros:

- (1) Commission is not committing to fund the project in the future without final permits or final cost estimates.

Cons:

- (2) Time-sensitivity expressed by Commerce suggests uncertainty on future availability of the funds if the agreement is not executed by the end of 2020.

This is NOT the recommended alternative.

Alternative 3 – Accept the Washington State Department of Commerce Clean Energy Fund grant. Approve construction completion for proposed Maritime Innovation Center.

Cost Implications:

Receiving contribution in the amount of \$5,000,000 towards the total capital project costs reduces the Port's total project costs for completing the Maritime Innovation Center.

Pros:

Significant monetary contribution to the completion of the project and achievement of the following:

- (1) Support the recovery of the maritime sector as we move out of the economic crisis brought on by COVID-19 global pandemic.
- (2) Retain Port capital for other priority projects and financial initiatives.
- (3) Redevelopment of existing vacant and dilapidated facility areas.
- (4) Honor the history of Fishermen's Terminal by restoring and enhancing the original structure and providing spaces that support the next generation inventions that drive the competitiveness of Washington State's Blue Economy.
- (5) Implement FT Long-Term Strategic Plan objectives of supporting fishing and maritime clusters as well as improving long-term financial viability of FT.

Cons:

- (1) Commission is committing to fund the project in the future, without final permits or final costs.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

<i>Cost Estimate/Authorization Summary</i>	Capital	Expense	Total
COST ESTIMATE			
Previous estimate (15% design level estimate)	\$10,500,000	\$0	\$10,500,000
Current change	\$5,500,000	\$0	\$5,500,000
Revised estimate (30% design level estimate)	\$16,000,000	\$0	\$16,000,000
AUTHORIZATION			
Previous authorizations	\$2,150,000	\$0	\$2,150,000
Current request for authorization	\$0	\$0	\$0
Total authorizations, including this request	\$2,150,000	\$0	\$2,150,000
Washington State Department of Commerce’s Funding (this authorization)	\$5,000,000	\$0	\$5,000,000
Remaining amount to be authorized	\$13,850,000	\$0	\$13,850,000

Annual Budget Status and Source of Funds

The project has been included in the approved 2021-2025 CIP with a total project cost of \$16,000,000 and assumes a \$5,000,000 contribution from WA Department of Commerce. The Port-funded portion of this project will be funded by the Tax Levy.

Predesign Financial Analysis and Summary

Project cost for analysis	\$11,000,000 (assumes \$5 million WA State contribution)
Business Unit (BU)	Maritime Portfolio Management
Effect on business performance (NOI after depreciation)	The property is expected to contribute approximately \$180K to annual NOI before depreciation. The project will increase annual depreciation expense by approximately \$220K per year.
IRR/NPV (if relevant)	NPV: (\$7.7M) IRR: 1.7%
CPE Impact	N/A

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ATTACHMENTS TO THIS REQUEST

- (1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

May 14, 2019 – Commission authorized \$1,850,000 design funding and an amendment to the Fishermen’s Terminal Phased Design Services contract, with Miller Hull Partnership LLP, for \$1,000,000 for final planning, design, and permitting for the Maritime Innovation Center.

January 8, 2019 – Commission received a briefing regarding Maritime Blue Plan and the Maritime Innovation Center.

December 13, 2016 –Commission authorized an initial \$3,000,000 for the Fishermen’s Terminal Redevelopment program planning and design; the total preliminarily estimated design cost was \$7,000,000.

May 17, 2016 - Commission received a briefing on the planning strategies comprising the Fishermen’s Terminal Long-Term Strategic Plan.

October 27, 2015 - Commission received a briefing about the progress of the stakeholder outreach program for the Fishermen’s Terminal Long-Term Strategic Plan.

August 11, 2015 - Commission received a briefing on the proposed scope and goals in advance of the launch of the planning process.