



COMMISSION
AGENDA MEMORANDUM

Item No. 8k

ACTION ITEM

Date of Meeting December 14, 2021

DATE : November 23, 2021

TO: Stephen P. Metruck, Executive Director

FROM: Stephanie Jones Stebbins, Managing Director Maritime Division
Marie Ellingson, Cruise Operations & Business Development Manager

SUBJECT: **Sixth Amendment Cruise Terminals of America Lease**

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute the Sixth 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 lease would continue the current agreement for two years through November of 2023 with two additional one-year extension options for 2024 and 2025.

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 cruise industry continues to recover from the pandemic and the ban on large cruise ships in the U.S. in 2020, the Port's cruise business resumes growth. Maintaining safe, consistent operations and continually improving health protocols and customer service at our current terminals is key. As the Port's cruise terminal operator, CTA has partnered with the Port and the cruise lines on the development and implementation of new health protocols and an updated sanitation program. CTA has provided a safe and secure terminal and pier operation and have been in good standing with the United States Coast Guard and Customs and Border Protection and in compliance with regulatory requirements.

JUSTIFICATION

In the fourth amendment to this cruise terminal lease, the port aligned the terms with the remaining term and options to extend as defined in the Port's current preferential berthing agreements and the target opening of the proposed new cruise terminal. The effects of the

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pandemic on the cruise industry have caused the port to reassess the Maritime Division's approach to Cruise and our strategic plan. Maintaining CTA as the terminal manager at Terminal 91 would allow us that time while knowing we can uphold safe and efficient cruise operations.

Should the Port decide to compete or otherwise negotiate 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.

Diversity in Contracting

This is an extension of an existing lease agreement. A WMBE goal is not feasible. The port will work with the cruise terminal operator and other cruise stakeholders to advertise job opportunities in historically underserved communities.

DETAILS

The basic terms of the existing agreement remain the same. The amended lease would continue the current agreement for two years with two additional one-year extension options at the port's discretion. Instead of two additional one-year extension options for 2022 and 2023, the term of the lease would extend through November of 2023 with two additional one-year extension options (2024 and 2025).

CTA has exercised their option to extend through 2022 in their current lease, with an additional one-year option for 2023. Given the unprecedented circumstances of the past two years, we are proposing additional flexibility to implement a strategic plan for our terminals and search for a new terminal operator when the future of cruise is more certain.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not amend the lease. The current lease with CTA will have no additional option years after November of 2023. This would require the Port to begin the process of seeking a new terminal operator and negotiate a new agreement.

Cost Implications: unclear what the financial implications would be.

Pros:

- (1) The Port issuing an RFP or negotiating a new lease 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.

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- (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.
- (3) The Port would have limited time to develop and implement a post pandemic strategic cruise business plan.

This is not the recommended alternative.

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

Cost Implications: The financial terms of the existing agreement remain the same.

Pros:

- (1) Allows for flexibility and increases options for the Port’s cruise business development plan in the future.
- (2) Approval of the sixth amendment ensures consistency in operations and regulatory compliance and continues efforts to exceed our customers’ expectation and high standards of the cruise industry.

Cons:

- (1) Could delay a competitive solicitation or alternative negotiation for two additional years.

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 sixth 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

- (1) Draft Sixth Amendment to the Cruise Facility Lease Agreement.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- November 02, 2021 – Fifth Amendment to the Cruise Terminal Lease reflecting CTA’s adoption of Exhibit 1 of the MOA per the CDC’s Framework for Conditional Sailing and allowed for the August and September rent payments to be made by CTA within 30 days given the late start to the cruise season.

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- October 22, 2019 – Commission approved the Fourth Amendment to the Cruise Terminal Lease.
- 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
- 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