PORT OF SEATTLE

Harbor Development Strategy 21

ADOPTED JUNE 26, 2001

Harbor Development Strategy 21 Participants

Advisory Committee

Aubrey Davis, Committee Chair
Cholly Mercer, Business Analysis Subcommittee Chair
Jack McCullough, Real Estate Analysis Subcommittee Chair
Mark Anderson
Sue Carlson
Bob Collier
Steve Daschle
Rich Feldman
Allan Golston
Yash Gupta
Harry Hutchins
Yogi Hutsen
Barb Ivanov
Ian Kennedy
Lise Kenworthy
Steve Koehler
Karen Lane
Tomio Moriguchi
Betty Jane Narver
Steve Odom
Rudy Petersen
Fred Rapaport
Scott Reid
Jack Rosling
Mary Jean Ryan
Chuck Savre
Patricia Stambor
Fletch Waller
Frank Young

Port Commission

Clare Nordquist, President
Bob Edwards
Pat Davis
Jack Block
Paige Miller

M.R. Dinsmore, Chief Executive Officer

Oversight Committee

Stephanie Jones, Project Manager
Steve Sewell
Tom Tierney
Mark Knudsen
Jim Schone
Don Lorentz
Jane Kilburn
Mike Merritt
Dan Thomas
Bill Anschuetz
David Kalberer
Will Friedman

Seaport Staff

Guiseppe Alvarado
Tom Berg
Monica Bradley
Michael Burke
Janis Campbell
Nickie Cartwright
Dakota Chamberlain
Ray Flaherty
Craig Hautamaki
Heidi Hallet
Anh Huynh
Warren Ingersoll
Marla Kempf
Lou Kotler
Melinda Miller
Chuck O'Donnell
Darlene Robertson
Tino Salud
Mary Schroeder
Jim Serrill
Vicky Stein
Tom Tyszko
Mandy West

Consultant Team

Berk & Associates
Heartland
Martin Associates
Jordan Woodman Dobson
BST Associates

Acknowledgment

The Port Commission thanks the members of the HDS 21 Advisory Committee for their vision, dedication and hard work, and extends its appreciation for the Committee's thoughtful, carefully considered and meaningful recommendations.

Table of Contents

INTRODUCTION

The Port of Seattle is a special purpose municipal corporation, operating within the boundaries of King County. This document presents strategic policies adopted to guide the Port's Seaport Division in managing its business and real estate assets.

The Port of Seattle has a dual role — public agency and business enterprise — and a complex mission, one that provides significant public benefit to the region. The Seaport's activities and facilities play an important role in the regional and statewide economy: the Seaport's container terminals provide the transportation infrastructure necessary to facilitate international trade flows; its fishing terminals provide a home for the commercial fishing fleet; and its passenger facilities and pleasure boat marinas provide for public access and utilization of the waterfront.

Harbor Development Strategy 21 Overview

In 2000, the Port initiated the Harbor Development Strategy (HDS) 21 effort, and convened the HDS 21 Advisory Committee to assist the agency in developing a new strategic direction and plan for the Seaport. The 30-member Advisory Committee encompassed a broad mix of citizens, Port customers, business and real estate professionals, labor, trade, and neighborhood association representatives and others. The Committee and its two Subcommittees met 36 times in an 11-month period —April 2000 to March 2001 — and Committee members volunteered thousands of hours to review, analyze and discuss dozens of key issues and strategic options. The results of this analysis and discussion form the basis of the recommendations in this report.

Figure 1 summarizes the scope of the HDS 21 project. As shown in the Figure, the Seaport's component businesses and real estate assets were analyzed, resulting in business and property-specific findings and recommendations, as well as overarching policy and decision tool recommendations.

Five of the Seaport's businesses were studied in depth:

- Containers
- Terminal 91 cargo businesses – breakbulk, project and roll-on/roll-off cargo
- Cruise
- Recreational boating
- Fishermen's Terminal – fishing and commercial vessels

In addition, two Seaport lines of business – Warehouse and Distribution and the Central Waterfront Piers and Properties – were briefly assessed.

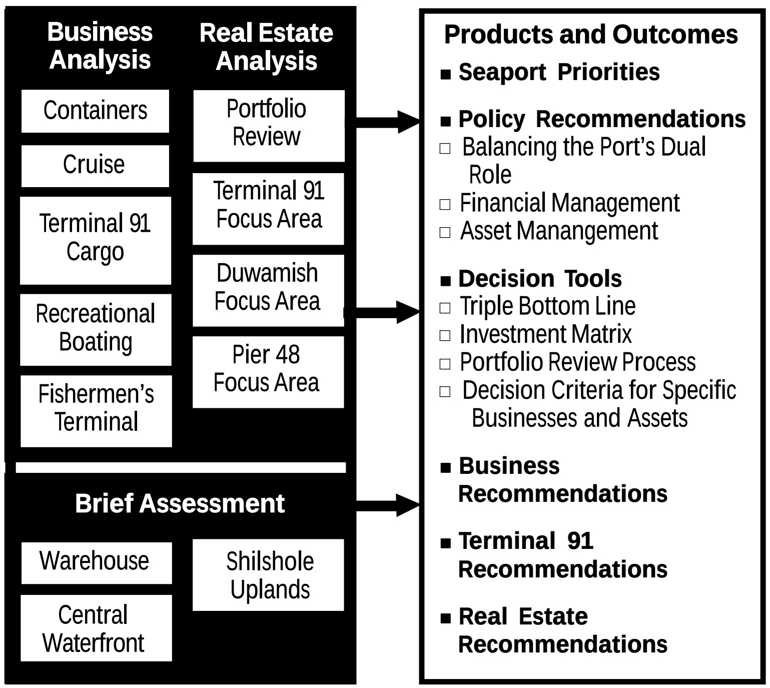
Real Estate Analysis

The Seaport is one of the largest property owners in the region; its holdings encompass 1,500 acres (500 submerged acres and 1,000 surface acres), including piers, waterfront and upland properties. Recognizing the importance of these holdings – from both operational and real estate perspectives – the HDS 21 process devoted significant attention to the Port's real estate portfolio. A five-part analysis was conducted:

- Seaport portfolio review – an assessment of the organization's properties, including their current financial performance;
- Three in-depth "focus area" studies:
  - Terminal 91
  - Pier 48
  - The Duwamish
- Brief assessment of current planning work underway for the Shilshole uplands, including review of development options.

The focus area studies provided a detailed analysis of the current status and potential options for each of the properties, as well as an opportunity to use the properties as case studies, from which recommended strategies and policy principles were developed for the entire Seaport portfolio.

Figure 1:
HDS 21 Scope and Recommendations



Key Themes: Setting the Context for New Policies and Priorities

Every strategic plan needs to be understood in the context of the organization's lifecycle – its recent history, and current challenges and opportunities. An important contextual piece for today's Seaport is recognizing the impact of major investments made in the last decade, which include approximately $600M invested in first-class container terminals at Terminals 5 and 18, about $150M invested in Central Waterfront facilities, large-scale infrastructure improvements to the piers at Terminal 91, and other business, infrastructure and public benefit improvements throughout the Harbor. Although the Seaport will continue to invest in infrastructure and facility improvements, a key challenge for this phase of the organization's lifecycle is to absorb and manage the additional capacity added in the 1990's. Recognizing these realities, a shift in focus from new facility construction to asset utilization and stewardship is appropriate.

In the coming years, the Seaport will need to emphasize revenue enhancement and fiscal discipline – another major HDS 21 theme. The Seaport needs to remain financially sustainable in the face of a cross-current of industry shifts and competitive factors, regulatory and environmental constraints, development opportunities and investment choices, and sometimes conflicting stakeholder perspectives. The Seaport needs policies and decision tools that enable it to "do well to do good."

POLICIES

Seaport Priorities

1 **Asset Utilization and Stewardship**

The Port should work to ensure that its portfolio of assets maximizes the Port's three bottom lines. In recent years, the Port has made significant capital investments. In the next several years, the Port should shift its focus from new facility construction to maximizing facility and asset utilization, through marketing, customer service and other means.

2 **Revenue Enhancement and Cost Containment**

The Port needs to "do well financially to do good economically." The Port's financial situation must be able to support the economic and community benefits provided by the Port. In the next five years, the Port should focus efforts on increasing operating revenues and cash flow, while increasing cost efficiencies, and maintaining a long-term perspective on the Port's purposes and objectives.

3 **Planning and Development of Key Properties**

All elements of the Port's Triple Bottom Line — but especially the financial component — can be enhanced through effective property planning, utilization and development of certain key Seaport properties, starting with Pier 48, the inland properties at Terminal 91, and the Shilshole uplands.

4 **Application of HDS Decision Tools to Port Businesses and Properties**

The Port is a complex institution operating in an extremely complex environment. In order to make good decisions in this environment, the Port needs effective decision tools and decision rules. Six such tools have been developed. A priority for the Seaport should be to refine and implement these tools, particularly developing more effective ways to measure and communicate the Port's economic, environmental and community benefits.

5 **Regional Port Cooperation**

The Port of Seattle will seek to establish a more cooperative relationship with the Port of Tacoma. Regional Port cooperation is in the interests of the citizens of both counties and the State of Washington. Policy principles for a cooperative relationship should be to first, increase business into the Washington market; and second, to collaborate on rationalized capital planning and investment policies, pricing, and competition with ports outside the State.

6 **Communication and Enhanced Public Understanding of the Port's Role, Activities and Triple Bottom Line Objectives**

The Port provides tremendous benefits to the region, is a major property owner, and plays a critical role in the regional economy. The Port has an excellent story to tell, and the Commission and Port leadership need new approaches to effectively convey the Port's role in business and real estate activities, and the economic, community and environmental benefits it provides.

Overarching Policies

Balancing the Seaport's Dual Roles

1 Communication and Outreach Regarding the Port's Triple Bottom Line

The Port's role, activities and performance are often misunderstood and under-understood by the public and other stakeholders. The Port should develop outreach strategies and materials that communicate the Port's Triple Bottom Line, and show how these bottom lines are performing and are balanced.

- Reporting on the "return to taxpayers" generated by Port activities would help generate understanding.
- Reporting on the direct and indirect economic benefits provided by business activities, the Port's role as an infrastructure provider, the uses of tax levy monies and other key topics are needed.

2 Tax Levy Policies

The Port should maintain current tax revenues, and consider raising the levy only under the following circumstances:

- To fund capital projects where a significant public benefit can be demonstrated and where there is a well-defined need.
- To participate financially and proportionately with other stakeholders in regional freight transportation infrastructure improvements (e.g. rail grade separations and other transportation improvements) that would benefit the region and the Port's core businesses.

Prior to any action to increase levy revenues, the Port should:

- Implement HDS 21 financial recommendations.
- Increase public awareness and understanding of:
  - The Port's current levy policy – which has imposed fiscal discipline by holding levy revenues flat since 1992; and
  - The Port's Triple Bottom Line and specifically how the region benefits from the Port's various activities.

The Port should also consider the potential impact of property tax-limiting initiatives, and any possible legislative actions that follow the intent of such initiatives. If the Port is placed in a position of losing its legal rights to the reserved levy capacity, the agency should take appropriate steps to preserve its legal capacity.

3 Regional Port Cooperation

Regional Port cooperation is in the interests of the citizens of both counties and the State of Washington. Policy principles for a cooperative relationship should be:

- First, increase business into the Washington State market.
- Second, collaborate on rationalized capital planning and investment policies, pricing, and competition with ports outside the State.

The two Ports should build on their existing cooperative relationship, established through the Joint Intermodal Infrastructure Committee, and use this forum – or a similar one – to share information and develop a plan to address issues critical to the region. These issues include:

- The need to fund additional large, regional transportation infrastructure improvement projects to enable the region to remain competitive in the container business; and
- Market factors which could improve the competitive position of the Pacific Northwest, relative to other West Coast ports.

4 Requests for New Public Benefit Activities

There are numerous and frequent demands for the Port to use its statutory powers and financial resources to participate in new public benefit programs and activities. The Seaport should respond to these requests with caution, given limited financial resources. It should apply the same Triple Bottom Line evaluation standards to these projects as it does to internally-generated project proposals.

5 Relationships with Regional and Local Governments and Stakeholders

The Commission should strengthen the Port's ties with local and regional governments and constituent groups that have an interest in a vibrant Puget Sound maritime economy. These cooperative relationships should be nurtured by both Commission and staff. The Commission should also strengthen government-to-government relationships with the affected Tribes to consider impacts to treaty rights and issues of mutual concern.

6 Local Cooperation

The Port should specifically strengthen its ties with the City of Seattle. This cooperative relationship should be accomplished at the staff level – in the context of property and policy planning activities, as well as at the Commission-Council level, through periodic meetings or other opportunities for joint discussion.

7 Review Mission Statement and Port Purposes and Objectives

The Port should revisit its mission statement and Port Purposes and Objectives Statement, now 10 years old, in light of Port operating practices, changes in the economy and the environment within the last decade, new HDS 21 policies and other key policy factors.

- Specific issues to be addressed should include definition of the Port's core mission, clarification of the Port's role with respect to competition with the private sector, and the Port's role and responsibilities in real estate activities.

8 Strategic Planning Updates

Given the increasing speed of industry shifts and the need for an effective policy framework, the Port should revisit its strategic plans and policies on a regular basis, i.e. no less than every 3-5 years.

Financial Management

9 Revenue Enhancement and Preservation

The Seaport should commit to a focus on strategies that enhance, supplement and preserve revenues, capital capacity and cash flow. Strategies should include public-private partnerships and other approaches to leverage and preserve resources.

10 Financial Targets for the Seaport

The Seaport should achieve a positive financial bottom line. Operating revenues should be adequate to cover all operating costs, allocations, depreciation and interest expense.

11 Financial Targets for Seaport Businesses

The Seaport should establish financial targets for its businesses, with the default expectation that every Seaport business (not line of business) have a positive return, or at least breakeven, i.e. cover operating costs, allocations and depreciation.

It is understood that some businesses and activities will not meet this expectation — support for these activities ought to be intentional, with economic and community/environmental benefits clearly articulated and measured.

12 New Investment Thresholds and Criteria

New investments (as distinguished from infrastructure and major maintenance and repair projects) should meet appropriate minimum internal rate of return targets and have acceptable cash flow impacts.

- If a proposed project falls below targets, the rationale for it should be clearly articulated, with the economic and community/environmental benefits detailed.
- The larger the project, the more scrutiny the determination of appropriate target and risk premium should receive.

Asset Management

13 Asset Utilization and Stewardship

To be an effective public steward, asset utilization should be a guiding principle in coming years. Implementation of this principle will vary by facility need, ranging from enhanced marketing to more politically challenging decisions such as shifting product mixes and exiting certain businesses.

Leasing strategies and practices are one element of asset utilization:

- Length of leases should be correlated to the level of capital investment required by the Port and its tenants.
- The Port should strive to balance portfolio risk through a mix of long and shorter-term leases.
- The Port should develop appropriate exit strategies for new lease agreements to preserve operational flexibility.

14 Strategic Property Management

The Port is the major property owner in the Seattle Harbor, and serves as a responsible trustee and steward of its publicly-owned assets. To fulfill its role effectively, the Port must actively manage its real estate holdings. This management approach has three components:

- Retention and management of existing properties. It is expected that the Port will continue to retain and manage the great majority of its properties; historically the agency has sold only a small handful of properties and this will continue as a basic principle.
- Strategic property acquisitions. The Port can contribute to regional economic growth and development by employing its special powers and capabilities to acquire and prepare properties for development in a way that the private sector may be unable to accomplish. Following development of these properties, the Port could retain them in its portfolio, or return them to the private market. Policy guidelines for strategic acquisitions are described in #18 below; policy criteria for assessing the future of Port-owned properties are contained in *Decision Tools*, pp. 12-13.
- Strategic property disposition. Strategic disposition of real estate is a component of effective property management, and the Port

should expect to make such dispositions periodically. These decisions would involve properties no longer needed for the agency's core business as well as sale of property for strategic economic development purposes.

15 Property Planning, Development and Communication

The Port should move forward with planning and development of several of its key properties, to generate public benefit from their productive use, and to realize returns that can be used to further the objectives of core Port businesses. The Port should use its skills and competencies to effectively master plan, permit and prepare these properties for development.

- Development of these properties will include both maritime industrial development aligned with the Port's core businesses, and more market-based real estate development that will provide revenues to support the Port's core mission on other properties.

- The Port should develop a property planning strategy for each of its key properties, and communicate those plans and strategies to stakeholders and the public.

- When the Port undertakes real estate activities, as with its other capital investments, the agency should clearly define and openly communicate the public benefit served by those activities. This definition and communication should include how those revenues can be used to provide economic and community benefits and how the real estate portfolio can support and enhance the Port's mission.

16 Optimal Port Role in Real Estate Activities

The most appropriate role for the Port in real estate activities is predevelopment of property.

- Predevelopment encompasses master planning, site planning and environmental documentation, including obtaining appropriate public comment; infrastructure planning and potentially, construction; and permitting activities.

- This role will allow the Port to utilize and leverage its core competencies, strengths and resources, including its patient capital and staying power; its relations and experience with regulatory agencies; its land assemblage experience; and its ability to obtain appropriate public input.

- Predevelopment activities will allow the Port to realize returns on its properties while minimizing risk, and will fill a niche the private sector is often unable or unwilling to fill.

- It is assumed that, in general, the Port will retain these developed properties, using ground lease agreements.

17 Partnering for Development

While the Port should not undertake speculative real estate development — its role should end at the predevelopment phase — the Port could partner with other entities for development purposes to capture value while limiting risk. These arrangements should be approached cautiously and will require additional staff resources and skills.

18 Strategic Real Estate Acquisitions

The Port can enhance its mission of regional economic development by undertaking property acquisitions that meet the following criteria:

- Where core competencies and Port strengths can be deployed.
- Where the financial return is adequate.
- Where the private sector might not otherwise be involved.

Given current revenue constraints, strategic property acquisitions must at least cover costs of capital plus an appropriate risk premium.

19 Land Use Compatibility

The Port of Seattle is one of only a few major ports in the world located in a downtown area, adjacent to the commercial center of the City. The Port owns, operates and has made large-scale investments in assets that cannot be moved – assets that provide significant economic benefit to the region. As the region and the downtown core prospers and grows, land values have increased and land uses surrounding some Port assets have been changing. Given this situation, the Port should adhere to the following approach:

- The Port should continue to actively participate in local land use planning efforts that affect its real estate holdings. This includes being a strong facilitator of regulatory and infrastructure changes that protect the Port's industrial uses on its properties and its ability to accomplish business and public benefit objectives.
- In land use discussions affecting the Port's portfolio or operations, the Port should seek a "seat at the table" in order to articulate what it needs and what mitigation would be appropriate to protect the continued viability of its operations. Examples include buffers, transportation improvements or certain types of overlays to protect industrial activities.
- When adjacent properties are needed for expansion of Port business and when the Port's needs and the market are diverging, the Port should consider acquisition strategies – buying property to control its use.

HDS 21 Decision Tools: Mechanisms to Effectively Evaluate Tradeoffs

Overview

The Port has three distinct but interrelated bottom lines. This **Triple Bottom Line** framework, as shown in Figure 2 on the following page, encompasses economic benefits, environmental and community benefits, and financial performance. The Port's mission encompasses, and the agency answers to its constituents, on all three of these bottom lines.

The Port should adopt the **Triple Bottom Line** as an operating and policy framework, using the construct to articulate and balance the various business, financial, economic and community benefit choices and tradeoffs the institution is required to make. This framework should be considered a work in progress; further analysis and discussion of the appropriate criteria for all three bottom lines is needed. In particular, additional work is needed regarding the assessment and communication of the economic benefits of the Port's business activities, including the relative value of those benefits across various types of businesses. In general, implementing the Triple Bottom Line framework will allow the Port to clarify the various benefits and costs of its policy choices, and importantly, to communicate the implications of those decisions to the public and agency stakeholders.

A Set of Decision Tools. In addition to the Triple Bottom Line framework, a set of decision tools has been developed to identify, analyze and make tradeoff decisions about the Port's complex business and real estate holdings, and to balance its dual role as public agency and business enterprise. These tools, which are presented in more detail in the pages that follow, are:

- **Investment Matrix Enhancements** – refinements to the Port's existing Investment Matrix, which establishes targets for new capital investments.
- **Portfolio Review Process** – a new analytic approach to understand and assess the relationship among business performance, property values and opportunity costs.
- **Decision Criteria for Specific Businesses or Assets** – to guide future consideration of the Port's holdings:
    - **Criteria for Selling Property**
    - **Principles for Assessing the Future of Waterfront Properties**
    - **Business Factors to Evaluate the Future of Port Businesses**

Figure 2:
Potential Triple Bottom Line Measures

Economic Benefits	Environmental/ Community Benefits	Financial Sustainability
Job Creation ■ **Job Quantity** ■ **Job Return on Investment** □ Cost per job ■ **Job Creation/Replacement** □ Percentage of jobs newly created, retained or transferred from other locations □ Counter-cyclical impacts ■ **Job Quality** □ Relation to King County median income measures □ Type and duration of jobs - permanent/seasonal; full-time/ part-time **Business Revenues Generated** **State and Local Taxes Generated** □ Value of maritime trade flows	■ **Transportation Infrastructure** ■ **Public Access** □ Park development and maintenance □ Trails ■ **Mitigation** □ Habitat replacement □ Other? ■ **Reclaim unutilized, underutilized and contaminated property** ■ **Other**	■ **Operating Indicators** □ Net operating income (NOI) as % of operating revenue □ Available cash as % of operating revenue □ NOI after depreciation as % of operating revenue □ Return on assets (ROA) □ Net profits/earnings ■ **Capital Indicators (financial sustainability)** □ Outstanding debt-revenue bonds and G.O. bonds □ Revenue debt service coverage - available cash/debt service

Decision Tools

1 Refinement and Operationalization of the Triple Bottom Line Framework

Figure 2 shows the elements of the Triple Bottom Line framework. The Port should operationalize this concept, refining the criteria and framework for the three bottom lines. This framework should allow the Port to distinguish between the activities that are intended to cover costs versus those that are not; to highlight the public benefit the Port is providing in those areas; and to analyze the relative costs of providing those benefits.

Next steps in the operationalization of the Triple Bottom Line are to:

- Expand the use of the Port's economic impact analysis to apply to investments, individual businesses and lines of business; develop standardized measures of the economic benefit for Seaport businesses and investments.
- Review and refine the preliminary environmental/community benefit measures.
- Develop a reporting format which shows — for each business or investment — financial performance, direct and indirect economic benefits, types, quality and distribution of jobs created, job benefits, and environmental/community benefits provided.

Implementation of the Triple Bottom Line

The Port should maximize all three bottom lines across the entire portfolio. This will require that some assets and businesses focus on one of the bottom lines, rather than attempting to maximize all three bottom lines for every business.

- The Port should regularly analyze its businesses and assets to determine how each performs against the various bottom lines.
- The Port should be intentional in its approach to balancing the three bottom lines across the entire portfolio.
- The Triple Bottom Line can and should be used to communicate to the public the Port's role and the benefits it provides to the public.

2 Investment Matrix Enhancements

The Port should revise its existing Investment Matrix to further improve its effectiveness as a decision making tool. A summary of key Investment Matrix policies is shown below; the detailed list is contained in Attachment A to this report.

- Continue with threshold internal rate of return (IRR) targets but strengthen financial measures used to assess new projects by incorporating net present value (NPV) into the Investment Matrix, and require that both NPV and IRR be provided in Port Commission decision memos.
- Incorporate cash flow analysis into project evaluation.
- Review the incremental targets for overall portfolio balance – i.e. enterprise projects need to recover the cost of capital and also fund a portion of infrastructure costs.
- Require that all project analyses include estimates of future capital expenditures for maintenance and anticipated renewal.

- Use data and models created for the Port's Economic Impact Analysis to develop standardized economic measures for each major new investment. These measures should include jobs (quantity and quality), direct and indirect income, median income benchmarks, and tax and business revenues generated. Continue with existing Investment Matrix measures that quantify jobs created per investment increment.
- Reevaluate and redefine the categories within the Investment Matrix, with the goal of putting the majority of projects in the business and real estate categories.
- Redefine several aspects of the real estate criteria:
  - To reflect ground leasing activities as well as development.
  - Revisit the "high risk" category in its entirety; including whether the Port should undertake high risk projects.

3 Portfolio Management Review Process

The Seaport should institute an ongoing Portfolio Management Program which provides for regular review and updating of each of the assets in the portfolio. The analysis should consider operational performance and market-based real estate values and opportunities.

- A primary purpose of the Portfolio Management Review Process is to assess the relationship between business performance and the property asset employed in the business; to ensure that the assets are effectively deployed to meet mission-critical objectives.
- Asset components — piers, uplands and inland properties — should be evaluated both separately and together to effectively identify property performance.
- Portfolio management reviews should be presented to the Port Commission annually, as part of the budget process.
- The review cycle should vary by property, with each property reviewed at least every five years.
- Properties with vacancies, struggling businesses and very low ratios of business revenues to real estate value should be reviewed more frequently, potentially annually.

A detailed outline of the recommended Portfolio Management Process is shown in Attachment B.

4 Decision Criteria for Sale of Property

The Port's operating presumption and preference is to retain properties in its portfolio. However, under certain circumstances, the Port should consider the sale of nonessential assets in a strong real estate market, to provide one-time financial returns that can support line of business and public benefit strategies. These circumstances are listed below.

Conditions Under Which to Consider Property Sale:

- Property is not aligned with core businesses or needed in conjunction with core business functions.
- Geographic location – relationship to other Port properties or businesses (i.e. is it protecting or buffering other Port property?)
- Fully mature site – i.e. no opportunity to capture additional value from the site within a reasonable timeframe.
- No opportunities for the Port to provide increased value.
- Redevelopment opportunity can best be met by others.

- Financial considerations– timing, market factors, potential return to the Port.
- Economic/community benefit evaluation – benefits of sale versus the Port retention; impacts on the area's cluster economy.
- Project financing considerations – where financing requirements make the transaction feasible only through property sale.

5 Decision Criteria: Principles to Consider in Assessing the Future of Waterfront Properties

Waterfront properties are scarce and special resources, and require special consideration in asset management strategies. As stated in the *Decision Criteria for Sale of Property* above, the Port should retain most of its holdings within its portfolio, and this is especially true for waterfront properties. The following principles should be considered in policy decisions governing these properties:

- In analyzing the future of waterfront properties, consider piers and shoreline zones both separately and together with upland properties.
- In planning the future of waterfront properties, the whole site (piers and uplands) should be considered.
- Piers should remain in maritime and water-dependant use, unless it can be shown that such uses are not viable.
- The Port should use the Triple Bottom Line framework to articulate the tradeoffs between maximizing economic benefits through business use choices, and maximizing financial return through property value choices. There is a place for both choices in the Port's portfolio, and the Port should be intentional in making tradeoffs in the context of specific properties.
- In assessing the business prospects of a specific maritime use for a property, the Port should:
  - Distinguish between water-dependent uses and non water-dependent uses;
  - Determine whether a given use needs to be located on waterfront property; and
  - Use that determination to make tradeoffs between maximizing water-dependent use and maximizing financial value.
- Where maritime uses are mismatched with the underlying property value (i.e. a marginal business located on a high-value property), the Port should seek a more suitable location for the business, considering:
  - First, its own holdings;
  - Second, other Seattle Harbor locations; and
  - Third, other locations in the region.
- Understanding the preference for the Port to retain its waterfront properties, if these criteria are substantially met, then the property could be considered appropriate for sale or long-term lease.

6 Decision Criteria: Factors to Consider in Evaluating the Future of Port Businesses

The following criteria should be evaluated in assessing the future of Port businesses:

- Relationship of the business to core Port mission
- Financial performance
- Growth opportunities
- Relative competitiveness in the business
- Relative disparity between income from business operations and real estate values
- Relative number and quality of jobs created
- Local economy multiplier
- Opportunities to relocate the business and jobs on other Port property
- Opportunities to retain the business and jobs elsewhere within the region

Business Policies

Container Business

1. Increasing trade and cargo flows through Seattle's gateway should be the Seaport's top priority.
2. The Port should increase its commitment to marketing container growth to improve facility utilization.
3. The Port should create awareness of and stimulate demand from shippers for using Seattle as the Port of entry for containers based on being an efficient, reliable, and consistent component of the supply chain.
4. The Port should collaborate with and encourage terminal operators, railroads, and regulatory agencies to increase the productivity of the Seattle Harbor supply chain process.

New Container Terminal Investments

5. New investments should continue to at least meet minimum internal rate of return targets — i.e. cover the cost of capital and appropriate risk premiums.
6. Container investment analysis and decision making should incorporate the HDS 21 Investment Matrix policies, specifically the inclusion of net present value calculations and cash flow analysis.
7. Internal rate of return targets for new investments should incorporate related off-site infrastructure cost allocations, per the policies below.
8. In assessing the appropriate risk premium — historically considered low risk, the Port should consider both the mission-critical and economic benefits of the business, as well as increased risk factors associated with industry consolidation and restructuring, and large back-loaded lease structures.

Port Participation in Funding Off-Terminal Infrastructure Improvements Related to Container Terminal Investment Projects

9. The Port should be a strong facilitator and advocate for transportation infrastructure improvements which strengthen its core business functions.
10. The Port should develop a methodology to allocate regional transportation infrastructure costs to its container terminals, given that the container business is the beneficiary of these improvements.
    - It is recognized that these costs cannot be recovered against current lease agreements.
    - Going forward, for new projects, the proportionate cost of the improvements attributable to the property (based on acreage or another methodology) should be considered part of project costs.
    - As leases terminate and are renegotiated, the pro rata share of infrastructure improvements should be included in terminal agreements.
11. Where the business cannot recover the cost of improvements, for example because of existing lease agreements, levy revenues are an appropriate source to fund the Port's share of regional costs. (Please see p. 4 for HDS 21 tax levy policies.)

Cruise Business

1. Staff should continue with current business plan and marketing efforts for Pier 66.
2. New capital investment in cruise terminals should meet Port internal rate of return targets and should be considered at least "medium" risk on the investment matrix.
3. Consideration of a second cruise terminal should await further indicators of market demand.
4. Planning for a second cruise terminal should focus on finding options that will enable the facility to at least break even financially — cover all costs including cost of capital. Staff should carefully assess the financial implications – revenues and costs – of alternative locations, facility types, operating models, and other development and operational factors that contribute to financial performance.
5. To meet financial return targets, planning work for a second terminal could focus on public-private development options and a mixed-use cruise terminal complex. Cruise terminal development costs could be offset with revenues from cruise-related development, potentially including hotel, restaurant, parking, rental cars and concessions. A public-private development agreement should encompass best practices from similar West Coast port-sponsored projects, and should bring development expertise and capital to the project.
6. As an interim strategy, the Port should continue with temporary moorage options to accommodate cruise ships at Terminal 37 and Terminal 91.

Recreational Boating

1. The Port should continue operating Shilshole Bay Marina.
2. Pricing policies should reflect the Port's rationale for continuing in the marina operations business — the ability to generate Seaport operating revenues and capital capacity.
   - Rates should be set to maximize financial performance (revenue increases and improvements in cost efficiencies) — rather than occupancy.
   - Rates should be set "at market" — priced to demand — for all of the Port's marinas, including permanent, transient and live-aboard moorage.
3. The Port should review waterside capital investments planned for Shilshole, through value engineering or a similar approach, to ensure that impacts to the marina's financial performance are minimized.
4. The Port should not pursue acquisition of additional, developed marina properties; it should leave these acquisitions to the private sector.
5. The Port should not pursue development of new marinas at this time. However, given demand for recreational moorage and potential returns to be realized, this could be revisited in future years, if shifts in the Port's financial resources and regulatory conditions provide a more favorable outlook for the business.
6. The Port should consider additional involvement in the dry storage business if underutilized property is available, and if adequate demand and returns can be demonstrated. There should be a preference for the Port to serve as a landlord, leasing property to a private operator of the business.

Fishermen's Terminal

Fishermen's Terminal policies to be considered at a later date, per Resolution 3457.

Warehouse and Distribution

As noted earlier in the report, the Warehouse and Distribution line of business was not part of the original scope of HDS 21, and discussion of the business was limited. Based on this preliminary review, the following policy principles were adopted:

1. The Seaport should continue with implementation of the warehouse management system (WMS) and with Commission-approved plans for the future of this business. This plan calls for the WMS to be implemented in the summer of 2001, and for there to be a two-year implementation and evaluation period.
2. During this period, the Port should apply the HDS 21 decision tools and principles to the warehouse business, and use the results of this analysis in its business evaluation.

Central Waterfront Piers and Properties

This line of business was also not included in the original scope of HDS 21 and discussion of these issues was limited. Some of the key challenges and issues for this line of business were identified and additional work should be conducted in this area.

1. The Port should apply the HDS 21 decision tools and frameworks to the different components of this line of business, and assess the results of this analysis.
2. The Central Waterfront line of business is now a collection of assets, businesses, cost centers and public benefit activities. For analytic purposes and to facilitate application of the decision tools and frameworks, the various businesses and assets should be separated and considered as individual elements.
3. In order to improve financial performance and rationalize the Seaport's Central Waterfront holdings, the Port should think broadly about the various assets and businesses within the unit; it should not assume continuation of business as usual. Options to consider include sale of assets, different operating models, and other approaches to improve financial performance while continuing to provide public benefits.
4. The Port should specifically examine costs resulting from permit conditions, to determine if it is possible to maintain the public benefits at reduced cost or while providing for increased revenues. The Port should consider obtaining changes to those conditions if appropriate revenue enhancement or decreased costs can be shown.
5. The Port should assess methods to increase operating revenues and decrease costs. Revenue sources to evaluate should include development of Pier 48 as well as lease, parking and other rates charged at the Port's Central Waterfront facilities.

Terminal 91 Policies

Chill Business

Conclusions

- From a technological perspective, the Chill business (i.e. refrigerated fruit warehousing) is becoming outmoded.
- Declining market factors and finances make this business "not a close call" – it does not cover allocations and depreciation, and the financial results are worsening from year to year.
- The Port should strategically "disinvest" in this business.
- The business could be served by other ports in the region – and the Port should make business decisions with regional considerations in mind. Everett and Tacoma have chill facilities, though Tacoma's is not in use.

HDS 21 Policy

Port staff should develop a plan to phase out of the Chill business. The plan should maximize revenue in the interim period.

Auto Business

Conclusions

- The likelihood of expanding the business is small.
- There is limited upside revenue potential.
- There are a relatively small number of jobs per acre.
- No other property in the Port's portfolio is appropriate for this use.
- From a regional perspective: the business could potentially be relocated to another Puget Sound port.

Roll-on/Roll-off and Project Cargo

Definitions

Roll-on/roll-off cargo (ro-ro) is wheeled equipment and vehicles that can be "rolled" on and off cargo vessels. New ro-ro considered for Terminal 91 would likely include agriculture, mining and road construction equipment. Project cargo is heavy equipment destined for specific sites, such as turbines, transformers, modular factories and hospitals, and prefabricated housing.

Conclusions

- Non-containerized cargo businesses are inherently challenging – they are extremely competitive, low growth markets.
- Project and roll-on/roll-off cargo markets face competition from containerization; from competing ports in the Puget Sound and elsewhere on the West Coast; and from private firms in the Seattle Harbor.
- Project cargo movements are sporadic, with no suggestion of a large volume change or substantial growth in this region.
- The Washington Public Ports Association (WPPA) forecast for breakbulk cargo shows declining volume in the next five years.
- West Coast labor rates are a competitive disadvantage, relative to East Coast and Gulf ports.
- Expanding the business will require a rail spur investment.
- Significant marketing efforts would also be needed to realize potential opportunities.

HDS 21 Policies

The Port should not invest in additional infrastructure for these uses, given:

- Limited market opportunities;
- Significant capacity available for project cargo at other Port facilities served by rail; and
- Available capacity – and interest in serving this market – by private firms in the Seattle Harbor.

Terminal 91 Real Estate

1. The Port continues to invest in the piers at Terminal 91 and these piers should remain in maritime and water-dependent uses.
2. Property south of the Magnolia/Garfield Street Bridge is mostly within the Shoreline Zone and should also remain in water-dependent uses.
3. Based on the cargo business assessment, the focus for Terminal 91 piers should shift to include commercial moorage and marine support activities as well as cargo uses. The Port should seek to maximize the use of the piers and Shoreline Zone properties for commercial moorage, marine support activities and other water dependent uses.
4. In light of the increasing land values of the inland property north of the Magnolia Bridge, and given that those properties are not expected to be needed to support cargo activities on Piers 90 and 91, the Port should:
   - Look to the Terminal 91 inland properties north of the Magnolia Bridge as an opportunity to maximize financial value and financial return to the Seaport, increasing capital capacity and enhancing the Port's overall Triple Bottom Line.
   - Consider carefully the impacts on existing tenants resulting from possible changing uses and devise a phasing plan that would allow for the development of the vacant acreage commensurate with a maximizing financial value approach.
   - As current leases expire, evaluate opportunities and implications of relocating these businesses and converting to higher financial value uses.
5. In considering the future of Terminal 91 properties, the Port should work within the context of the Seattle Comprehensive Plan and the Ballard Interbay Neighborhood Manufacturing and Industrial Center (BINMIC) Plan. The Port should be mindful of the scarcity and desirability of industrial property in the City.
6. Appropriate Port role in facilitating siting for water-dependent and maritime support uses:
   - If there is demand from true water-dependent businesses that cannot be met on the piers and in the Shoreline Zone, the Port should serve as a facilitator in locating sites for these businesses.
   - The Port should consider the economic benefits of clustering business and use types in making decisions about uses of these properties.
   - The Port should facilitate locating suitable sites for those businesses, considering:
     - First, its own holdings;
     - Second, other Seattle Harbor locations, and
     - Third, other locations in the region.

7. The Port should initiate master planning for the site:
   - A focused planning process of 6-9 months will inform the Port of site potential, likely revenue potential and the viability of alternative use types.
   - The master plan should encompass the entire site plus key adjacent properties.
   - Specific issues to be addressed in the master planning process should include traffic, access, supporting infrastructure requirements, environmental, market and real estate issues, maritime use compatibilities, other site adjacency impacts, and other community concerns.
   - As part of the planning process, the Port should assess and position the inland property north of the Magnolia Bridge to achieve its objective of maximizing financial value.
   - The Port should also identify and assess the regional economic and environmental/community benefit implications of alternative development and use options.
8. Stakeholder outreach is critical to the success of the planning process.
   - The Port should involve the Neighborhood Advisory Committee and other key constituents in the planning process.
   - The Port should reach out to the development community to fully assess the potential of the Terminal 91 inland properties north of the Magnolia Bridge, and to gauge interest among potential development partners.
9. The Port should work with existing cold storage businesses, which will remain.
   - The cold storage businesses (i.e. privately-operated freeze facilities) at Terminal 91 are viable tenants and the Port will need to assess the implications of changing land uses on those tenants.
10. The inland property north of the Magnolia Bridge should be developed in phases.
    - The Port should undertake predevelopment and infrastructure activities to maximize the site's value.
    - Ground leasing of property is assumed.
    - The Port should continue with interim uses during the planning and permitting period.
11. Appropriate Port roles in property acquisition and predevelopment at Terminal 91:
    - The Port's role in development of the Terminal 91 inland properties north of the Magnolia Bridge should be predevelopment, including master planning, infrastructure improvements and obtaining regulatory and public input.
    - The Port should consider acquisition and predevelopment of key properties adjacent to Terminal 91, assuming that those acquisitions make sense from use and financial perspectives. A threshold for the Port's involvement in surrounding properties must be appropriate financial return.

Real Estate Policies

Pier 48

1. The Port should move forward with redevelopment of the property. There is no public benefit in allowing the property to remain vacant.

2. The Port should use a principled and open public process to determine appropriate options for the property.

3. The Port should place priority on obtaining financial return from the property; such return is likely to be eroded by public benefit and public access requirements. This property should be considered a test case for the Port's ability to extract reasonable value from a property not necessary for its core business.

4. The Port should retain water-dependent uses, to the extent possible, on the pier front, and should consider the impacts of redevelopment on Pier 46.

5. The Port should investigate options which serve both Washington State Ferries needs on the waterside, and capture revenue potential from the uplands. Such a win-win outcome may be possible through a carefully structured public-private partnership.

6. The Port should investigate all real estate options which could improve the return on the property, including long-term leasing, public-private partnerships, sale to the State, or other approaches.

Shilshole Uplands

1. The Port's work on alternatives for the Shilshole uplands is well done, and the Port should continue with project planning.

2. The uplands project should be a positive revenue contributor. Redevelopment should be pursued only if it enhances Seaport revenues and meets appropriate internal rate of return targets. The Port should assess private investment and public-private partnership options to preserve Seaport capital and minimize cash flow impacts.

3. The redevelopment project should meet appropriate internal rate of return targets for real estate investments, and the Port should look for opportunities to bring private capital investment to the project.

4. In planning for the site's redevelopment, the Port should consider the Shilshole uplands "one of the special places in the City," and should focus on the broader needs of the City and the community. The interests of recreational boaters can and should be accommodated within the broader context of a Citywide improvement project.

Duwamish

1. While the Port has significant skills and resources in land assembly, property remediation and predevelopment activities, there are minimal opportunities in the Duwamish for the Port to undertake these activities on a financially breakeven basis.

   - Despite environmental conditions, the Duwamish economy is relatively healthy, with few vacant or abandoned sites.

   - Much of the Duwamish land is occupied by small owner/users, and redevelopment would result in displacement of those businesses.

2. The greatest potential for Port activities in the Duwamish is in the modernization and improvement of its existing portfolio of land holdings.

FINDINGS

Container Business

Market Factors and Priorities

- In the 1990's, the Port invested approximately $600M in new container terminals at Terminals 5 and 18, bringing greatly enhanced terminal capacity to the Harbor.
- Currently there is available capacity throughout Seattle's container system – at the terminals, on ships, and in the intermodal rail system.
- Once capacity is reached, technology improvements are possible to enhance throughput on existing land – although such investments are the terminal operators' decision and will require labor approval.
- The Pacific Northwest (PNW) market has been growing relatively slowly compared with ports to the north and south.
- The Martin Associates/BST Study (*West Coast Port Competitive Analysis, October 1997*) concluded that the costs of moving cargo through Puget Sound ports could increase by as much as 10% without affecting West Coast market share; these revenues could help pay for regional transportation infrastructure improvements.
- Given these factors, the Seaport's challenge for 2000-2010 is to absorb and effectively utilize the new terminal capacity, and to try to grow the container market.

Regional Port Cooperation

In making recommendations on regional Port cooperation, the Committee acknowledged several important issues:

- Both the Port of Seattle and the Port of Tacoma have available terminal capacity;
- Tacoma has lower land costs and considerably more developable land for container terminals;
- Tacoma is able to provide terminals at lower lease rates than Seattle;
- Seattle's advantages include shorter transit times and better berthing spaces. From a customer cost perspective, Seattle and Tacoma are roughly cost competitive;
- Carriers generally prefer their own terminal facilities, due to lower costs as well as increased control and the ability to plan better for future growth;
- In the future, Tacoma has the opportunity to be the bigger port;
- Seattle's interest is in the effective utilization of its existing terminals, in which it has invested hundreds of millions of dollars; and
- Shifting to a cooperative relationship will require a "culture change" for both Ports.

Cruise Business: Second Cruise Terminal Investment

Cruise Business Demand in Seattle

- The Port is commended for development of the passenger cruise business – a new area for the agency.
- The Port had a successful first year; however demand for homeporting in Seattle not yet established.
- It is unclear when demand will be known; the Port may know more in a few months, or longer. Momentum could build with new cruise lines signing up.

Economic Benefits

- The cruise business generates business revenues and jobs within the region. However, on a relative scale, it is not as attractive as the container business.
- The Committee had two perspectives on job quality issues: (a) service jobs create entry-level opportunities and there is a place for a mix of jobs in the economy; and (b) the focus should be on livable-wage jobs.

  Some Committee members noted that low-wage service jobs need to be mitigated because they create a demand for already stretched publicly subsidized affordable housing resources; add to the rapid growth of traffic congestion if those working in low-wage jobs move to areas where more affordable housing is available; and increase the demand for limited public health care resources if jobs created provide limited or no access to health care benefits.
- The cruise business is seasonal, providing economic activity at the peak of the tourist season in Seattle; is this "piling on" hotel and retail activity at a time when it is least needed?

Financial Return and Risk Factors

- Competition with Vancouver, B.C. affects the Port's pricing and returns. Additional cruise capacity is coming on-line in Vancouver in 2003; the impact of additional capacity is not yet clear.
- The total cost to cruise lines between Vancouver and Seattle is roughly comparable (i.e. Vancouver has a higher passenger fee and lower dockage fees).
- The business has at least comparable and likely higher risk than the container business, since cruise lines do not typically have contracts with or long-term financial commitments to ports.
- The risk of not being ready with a second cruise terminal and potentially turning away business is balanced against the risk of investing and building before the market is ready or certain.
- A potential financial risk associated with investing in a second cruise terminal is the impact on financial performance of the existing terminal at Pier 66.

Location of Potential Second Cruise Terminal

- In the short-term, the Port has temporary options to accommodate cruise ships at Terminal 91 and Terminal 37. In 2001, overflow vessel calls from Pier 66 will be handled at Terminal 37, and the market will indicate its satisfaction with those temporary accommodations.

- Regarding a permanent location, a downtown location is considered a competitive advantage (i.e. not Terminal 91); however Pier 48 is too short and too expensive to rebuild; Terminal 37 is a good location but is expected to be in container terminal use.

Public-Private Real Estate Development Partnerships

- Several West Coast ports (San Francisco, Los Angeles, San Diego) are considering or actively planning public-private joint development projects, encompassing cruise terminals, hotel, office, retail developments.
- Incorporating real estate development into cruise terminal siting potentially provides an opportunity to recoup Port investment costs – could potentially be "an ideal" public-private partnership, with the Port providing the land and the private sector providing the capital.
- Such a development would require an appropriate location; there is no site currently available for such a project.

Perspectives on Working with Private Development Partners to Mitigate Low-Wage Job Impacts

Some Committee members expressed the perspective that if a mixed-use, public-private real estate development is planned for the Seattle Harbor, the Port should take a strong role in working with private partners to mitigate the impacts of low-wage jobs, by evaluating the following criteria and giving preference to proposals that enhance job quality:

- The past practices of the operator(s) and the principals owning or leasing the facility;
- The wage and benefit structure for the workforce and the requirements that must be met for employees to use the benefit plans;
- Strategies to promote career ladders and upward mobility for employees;
- Plans for providing on-site English-as-a Second Language and Adult Basic Education training; and
- Plans for addressing the child care needs of employees such as on-site facilities, subsidies, sick child options, etc.

Recreational Boating

Significant New Demand is Projected

- There is significant demand in King County for additional wet moorage (approximately 3,000 slips within 10 years); there are very few new marinas in development in the Puget Sound region.
- As the market builds and without new supply, rates are likely to increase beyond the consumer price index (CPI).
- There will be increased demand for dry boat storage facilities, as smaller vessels are priced out of the market.

Importance of Market Rates

- The Port's business plans call for imposition of market rates at its marinas, and the agency endeavors to set prices at market levels.
- Market rates should apply to all moorage types, including transient and live-aboard moorages. Assessing anything other than market rates would constitute unfair competition.

- The HDS 21 recreational boating market analysis found that Shilshole Bay Marina rates are currently "at market," with a few adjustments needed for larger vessels, per consultant recommendation.
- Shilshole competes with municipally-operated marinas in Des Moines and Edmonds, and with the Elliott Bay Marina. Rates at Shilshole are above those charged by Des Moines and Edmonds, and are close to those at Elliott Bay, a newer marina with additional amenities.
- The Port's rate-setting abilities were temporarily constrained by the requirements of Initiative 695. The Port Commission should and is revisiting these constraints, by moving forward with a market-based price increase for 2001.

Shilshole Financial Contribution and Planned Capital Investment

- The Shilshole line of business has one of the highest gross margins of any Seaport business.
- Planned investment at Shilshole in the next five years is estimated at $47M, this will fund waterside renovations/reconfigurations and supporting infrastructure. Another potential $16M in the upland redevelopment project is also being considered.
- The in-water capital project is included in the baseline Seaport long-range financial plan; the uplands project is not.
- Financial performance will be effected by these capital investments.

Continuation of Port Operation of Shilshole Versus Privatization or Contract Operations

The Committee discussed whether operation of Shilshole Bay Marina should remain a Port function, or be privatized through a long-term operating lease with a private firm. The consensus of the Committee favored continuation of Port operations. Points in favor of the status quo were:

- Competition with the private sector is acceptable, provided that market rates are charged, and the Port's operation of Shilshole makes sense from operational and financial perspectives. Further, potential savings do not justify either incurring the risks or making a change in what is currently a well-managed operation. It is important to note that the best candidates for privatization are also the best financial performers. By privatizing those businesses, the Port may be cutting off consistent revenue sources that give the Port the wherewithal to make investments in its core businesses.

Points in favor of contract operations were:

- The Port needs to focus on the essentials of moving people and goods, and should focus its creative energies on those activities. The Port faces huge challenges and huge capital demands, and the more it sheds ancillary activities and focuses on core activities, the better it will be. Shilshole is not within the Port's core mission, and it is a distraction – one more thing to manage. It has a limited economic impact and benefits only two-tenths of 1% of King County families.

Fishermen's Terminal

Facility Utilization and Finances

- In response to vacancy rates and facility utilization concerns, the Port allowed commercial workboats to moor at Fishermen's Terminal (FT) in 1997. Workboats now comprise 20% of FT's moorage revenue base.
- The market for workboat moorage is price-sensitive and limited; a 1999 survey found 303 commercial workboats moored inside the Locks (excluding FT). Most vessels are larger than 50 feet.
- Despite the introduction of workboats in 1997, vacancy rates at FT have held steady for last five years, fluctuating seasonally between 20-40%.
- Financially, the current operation as a whole covers operating costs including allocations and depreciation. Upland properties cover allocations and depreciation, the piers do not.

Chronology of Advisory Committee Recommendations

- The Business Subcommittee discussed opportunities and strategic issues for commercial fishing and commercial vessels at FT on August 17.
- The Advisory Committee met on August 24 and affirmed a strong commitment to maintaining the fishing industry as part of the Port's mission statement; and to keeping FT devoted to fishing / commercial vessels.
- The Committee also concluded that there would be a need to revisit the issue of expanding FT use to include recreational boating, brokered yachts, etc, if the commercial market does not fully utilize the facility. Subsequently, Port staff learned that the original planned redevelopment and infrastructure upgrade project would not return the cost of capital.
- In December, the Committee discussed changed market and environmental conditions affecting vessel occupancy at FT, engineering study findings that the original redevelopment plan is not physically workable, and consequently, a staff proposal to utilize empty small vessel slips by allowing some recreational moorage at the facility.

Economic Impacts of Fishing Activity

- Fishermen's Terminal is a significant generator of economic activity. According to *The Economic Impacts of the Port of Seattle (2000)*, 1,887 direct jobs, 1,997 indirect jobs and 1,422 induced jobs are generated by fishing-related activities at Port facilities, for a total of 5,306 direct, indirect and induced jobs. Total annual wages generated by fishing activities at Port facilities are $246.5M and business revenues are $161M.
- Commercial fishing and workboat vessels support a significant maritime cluster economy in the Ballard, Fremont and Interbay areas.

Updated Market Assessment and Redevelopment Plan

- There continues to be demand for larger fishing vessel moorage at FT; there are differences in the industries and the markets served by different sized vessels.
- Since August 2000, significant changes have occurred in the marketplace: impacts to the fleet from the Stellar Sea Lion situation; the crab fleet continues to decline; fuel prices have increased by 50%, resulting in some vessels remaining in Alaska rather than returning seasonally to Seattle; and construction of new moorage in four Alaskan communities.
- The commercial workboat market is softer than anticipated and the distant water fleet market is declining more than anticipated. The commercial workboat market is not filling the gap.
- Transient moorage rates are down 25% this year; there is significant vacant capacity at the facility.
- The original redevelopment concept to provide additional moorage for larger workboats has been found to be physically infeasible. In addition, dredging required to accommodate the larger vessels may not be permissible.
- The original redevelopment concept is also not financially feasible; initial costs were projected at $17-20M; these cost estimates have nearly doubled.

Need for a New Facility Utilization Plan and Recreational Moorage at other Puget Sound Facilities

- A new plan is needed, and this plan should be discussed with tenants and the fishing and commercial vessel community.
- Additional revenues are needed to cover infrastructure investment costs. The options are limited: increase current customer rates, or access the recreational moorage market. There may be potential to obtain additional revenues from new uplands development; this is for future consideration.
- Expanding the facility's use to accommodate some recreational vessels is consistent with the trends at other Puget Sound marinas. Fishermen's Terminal is now the sole commercial-only marina in the Northwest.
- All other Puget Sound marinas originally dedicated exclusively to fishing vessels have shifted to allow recreational vessel moorage. These marinas include Bellingham, Poulsbo, Everett, Edmonds, Astoria and Bremerton. At these facilities, commercial and recreational vessels are moored in separate areas.
- Separate moorage rates and preferential berthing could be maintained for fishing vessels; these approaches are in place at some of the marinas listed.

Recreational Moorage at Fishermen's Terminal

The Committee reached consensus to allow some recreational vessels at Fishermen's Terminal, with several caveats. In the course of the Committee's discussions, many points were raised regarding accommodating some recreational vessels at the facility; these points are summarized below.

- The Port should have the flexibility to make the best use of the facility, if it does not negatively effect the fishing industry. Fishing is part of our community fabric – it is important to the region. However, the Port has tried to address the vacancies with commercial vessels and that has not filled the void. The Port needs to take steps to get utilization that is at least reasonable.
- Vacancy rates mean the asset is underutilized; the Port needs to generate new revenue while not diminishing its support of the fishing industry.
- There are submarkets of the recreational boat market that could work at Fishermen's Terminal; i.e. transient moorage or yacht brokerages. Some recreational boat owners would want to moor at Fishermen's Terminal if the rates were lower than other marinas with more amenities.
- Bringing in commercial vessels to FT was a good move, but there are reservations about adding recreational boats. Land at FT is limited and parking could be a problem. FT has a working culture so adding recreational boats mixes that culture with one that is leisure-oriented and requires additional facilities.
- There are other marinas that are periodically soliciting tenants at Fishermen's Terminal – Everett, Bellingham – but FT is a good place to be; fishing vessels are not being squeezed out. It would be useful to have economic information on different sized vessels at the facility, by zip code. It would also be useful to have systematic information about why vessels go to or leave other ports.
- There is a balancing act here – between the need to balance the economic impacts and the financial picture. There are also issues of accountability and public trust. A good plan is needed to maintain a public trust with the fishing community.

Terminal 91 Business and Real Estate Findings

- Seattle's non-container cargo business is not growing – due to increased containerization of goods and industry shifts.
- Internal Port and externally-commissioned cargo market analyses have concluded that marketing for project cargo and ro-ro shippers will be challenging. This business is sporadic, highly competitive and requires significant and ongoing marketing efforts to be effective. Competition comes locally from private firms and from other West Coast ports.
- Terminal 91 is not appropriate for container cargo due to access and traffic constraints, and neighborhood agreements. The South Harbor is the appropriate location for container uses.
- Cargo businesses require upland properties for support – however without viable cargo uses, inland property (i.e. north of the Magnolia/Garfield Street Bridge) is not expected to be needed for future cargo support.
- In contrast to the non-container cargo business, there appears to be demand for commercial moorage and marine support use of Terminal 91 piers.
    - These are uses that support the maritime industry – fishing, tugs, Coast Guard, the National Oceanic and Atmospheric Administration (NOAA), and potentially cruise.
    - Locating commercial moorage and marine support uses at Terminal 91 frees pier space in the South Harbor for container use.
- From a real estate perspective, Terminal 91 is the Seaport's most valuable developable property. Using the Triple Bottom Line and *Principles for Consideration of Waterfront Property* frameworks, the Port's primary objective in developing Terminal 91 property north of the Magnolia Bridge should be maximizing value and financial return.
- The Port should focus future maritime uses south of the Magnolia Bridge and look to transition the inland property north of the Bridge to other, higher value uses, in order to support core business uses and the economic and environmental/community bottom lines elsewhere in the Seaport.

ATTACHMENT A: INVESTMENT MATRIX ENHANCEMENTS

The purpose of the Port's Investment Matrix is to evaluate capital investment decisions. The effectiveness of the Investment Matrix should be strengthened by the following changes and additions:

1. **Continue with threshold internal rate of return (IRR) targets but strengthen financial measures used to assess new projects, by incorporating net present value (NPV) into the Investment Matrix.** Emphasizing NPV as an additional project evaluation measure will provide an improved sense of the magnitude of a project's financial contribution to the Port. (Also 1996 staff recommendation).

   - Require that NPV (along with IRR) numbers be provided in Port Commission decision memos.

2. **Incorporate cash flow analysis into project evaluation.** This approach will provide information on both the long-term economics of new investments and the shorter-term impacts on line of business financial measures, such as business plan targets. (Also 1996 staff recommendation).

3. **Review the adequacy of incremental targets in light of the expected capital investment program mix,** i.e. the relationship between revenue-generating and non-revenue generating projects. Enterprise projects need to recover the cost of capital, consider unanticipated expense costs, and fund a portion of infrastructure costs.

   - Require Port Commission review of the targets.

4. **Require that all project analyses include estimates of future capital expenditures for maintenance and anticipated renewal.** This will help ensure that such expenditures do not reduce the Port's overall portfolio return, since these costs will have been factored into project returns. (Also 1996 staff recommendation).

5. **Use data and models developed for the Port's Economic Impact Assessment to develop standardized economic measures for each major new investment.** These measures should include, but not be limited to: jobs (quantity and quality), direct and indirect income, median income benchmarks, and tax and business revenues generated. Continue with existing Investment Matrix measures that quantify jobs created per investment increment.

   - The decision making process for new investments should use the economic impact analysis indicators for each business to clearly articulate the specific economic benefits of the proposed investment.
   - This analysis should include a comparative assessment of how the expected benefits compare with those associated with investments in other Seaport businesses.

6. **Reevaluate and redefine the categories within the Investment Matrix, with the goal of putting the majority of projects in the Business and Real Estate categories.**

   - Add financial criteria to the "other" categories to understand and assess the financial implications of non-business investments.

7. **Redefine several aspects of the real estate criteria.**

   - The redefinition should encompass ground leasing activities as well as development, and modification of cash equity and other criteria to reflect appropriate ground leasing risks. New criteria should be added, if necessary, to reflect the Port's expected real estate activities.
   - Revisit the leasing criteria and associated risk levels.
   - Revisit the "high risk" category in its entirety; including whether the Port should undertake high risk projects.

ATTACHMENT B: PORTFOLIO MANAGEMENT AND ANALYSIS PROCESS

Purpose

- To inform good decision making about Port properties by providing and analyzing information on business factors and the real estate context.
- A management tool to identify and highlight tradeoffs and opportunity costs among business options and real estate values.

Principles

- All properties should be included.
- Portfolio management reviews should be presented to the Port Commission annually, as part of the budget process.
- Properties should be evaluated on a rolling review cycle, with every property assessed at least every 5 years.
- The frequency and depth of review should be determined by business/property characteristics.

Use longer cycle (up to 5 years) for:

- Stable businesses with long-term leases
- Fully developed, stable real estate assets

These properties could be evaluated using a "short form" format, recognizing that such a "short form" analysis may turn up issues that would require subsequent "long form" analysis.

Use shorter cycle (1 to 2 years) for:

- Underperforming businesses
- Properties with expiring leases
- Properties that are vacant or about to become vacant
- Critical properties in flux should be put on "watch list" and reviewed annually

These properties would require a "long form" analysis, i.e. a more detailed evaluation.

Evaluation Process

1. **Evaluate Current Business Prospects & Performance**

Business Outlook

- Relationship to core business - how mission-critical?
- Growth and revenue potential
- Is business affected by cyclical versus structural changes?
- Potential for process improvements
- Capital investments and major maintenance needs

Performance Measurement

- Financial Performance - covers all costs?
  - Is there an imputed subsidy rate? Does the business cover operating expense, corporate allocations, depreciation?
- Business-to-land market value
  - What is the land value and how does it compare with the business income?

- Annual holding cost -- opportunity cost of current activities, practices
    - Revenue foregone on vacant or underutilized property
    - Costs associated with holding site -- debt service, maintenance, etc.
    - Other?
- Economic benefits -- based on Port standardized economic impact measures to be developed for the Triple Bottom Line
- Community and environmental benefits assessment -- based on Triple Bottom Line measures

2. Analyze Business/Real Estate Options

Identify Options:

- Hold land in current use
- Hold with interim uses
- Disposition
- Property redevelopment
- Relocation of business to other sites
- Other business/real estate uses

Analyze Options:

- Business and Real Estate Issues
    - Identify criteria, strategic priorities (i.e. maritime uses, waterfront, etc.)
    - Identify range of business uses
    - Real estate analysis of property
- Performance Measurement of Alternative Options Measured Against Status Quo and Minimum Thresholds/Targets
    - Potential financial returns
    - Economic benefits - based on Port-standardized economic impact measures
    - Community and environmental benefits

3. Develop Property-Specific Plan for Management of the Asset

- For underperforming properties:
    - Develop improved performance plan
    - Exit strategy
- For "holding" properties:
    - Planned holding period and action plan for period
    - Develop exit strategy
    - Properties noted on "hold list" -- list should be prioritized by strategic value and relative performance and reevaluated annually in light of changing market conditions.

ATTACHMENT C: HISTORY AND ADVISORY COMMITTEE ORGANIZING PRINCIPLES

The First Harbor Development Strategy

In 1985 the first HDS Advisory Committee was formed to develop "a set of policies to serve as working guidelines for the development of five areas of the Seattle Harbor for marine cargo facilities." The strategy specifically excluded areas of the Harbor which were not candidates for future cargo terminal development – Shilshole Bay Marina, Fishermen's Terminal, and the Central Waterfront. After working for more than a year, the Committee and Port staff developed consensus on a proposed strategy, which was adopted by the Port Commission in August 1986.

In 1991, Port staff developed the Container Terminal Development Plan, a policy plan to guide implementation of container and intermodal facility projects. In adopting this Plan in November 1991, the Commission amended the 1986 policies.

HDS 21: A Strategy for the Port's Future

In 1999, the Port of Seattle began a new strategic planning process for the Seaport: Harbor Development Strategy 21. From the outset of the HDS 21 process, it was understood that new policies would be developed to replace the existing guidelines. The original HDS Committee and policy document set a high standard – development of policies which were useful to the Seaport for 15 years. The HDS 21 process would need to recommend meaningful and useful policies across the full spectrum of Seaport business , real estate and public benefit activities, and a diverse Advisory Committee of stakeholders would need to reach consensus on those policies.

Advisory Committee Organizing Principles

Several key organizing principles guided the Advisory Committee's work:

1. **The importance of achieving consensus**. The Committee's written operating principles stated: *"The Committee will operate by consensus. All members' positions will be respected and considered, and wherever possible the group will work collaboratively to reach consensus on recommendations."* In subsequent discussions, the Committee defined "consensus" as majority opinion -- not unanimity. The group acknowledged that given the diversity of the Committee, it was not reasonable to expect unanimity on most issues and recommendations.

   In its discussions, the Committee did operate collaboratively, to reach an informal consensus on issues. This consensus was the result of lively and sometimes heated discussions; there was a range of opinions on many issues. Committee members demonstrated an ability to consider other perspectives, to change perspectives based on discussion, and to compromise on positions. The *Findings* section of this report summarizes some of the Committee's various perspectives on key topics.

2. **Staff involvement and participation**. The HDS 21 process was a collaboration between the Committee and Seaport staff. Staff was involved in all aspects of the project – technically, analytically and in policy discussions. Many Committee members specifically requested staff perspectives on various issues, and part of the learning process for the Committee was to understand current practices, issues and challenges from the perspective of Port managers. All Committee meetings were open to staff, and particularly at the brown bag, lunch-hour Subcommittee meetings, there was significant staff attendance and involvement.

Through this process, consensus developed among the Committee and Port staff on the major recommendations presented in this report. To the extent that there may be differences, it is expected that staff will discuss any distinctions with the Commission in the next phase of the project and that the Commission and staff would then reach agreement on the overall strategic plan.

3 **Regular Port Commission briefings throughout the process**. Commissioners were briefed seven times during the project, in a purposeful effort to convey information and obtain feedback on recommendations as they were developed by the Committee. The three Committee chairs played significant roles in several of the briefings, providing the Commission with a sense of the richness of perspectives and dialogue at the Committee meetings.

Prepared by:

BERK & ASSOCIATES