



Legislation Text

File #: 2022-0211, Version: 1

DATE: August 9, 2022

SUBJECT:

B STREET CRUISE SHIP TERMINAL INTERIOR IMPROVEMENTS AND FACILITY FEE

- A. CONDUCT A PUBLIC HEARING AND ADOPT AN ORDINANCE AMENDING THE SAN DIEGO UNIFIED PORT DISTRICT TARIFF NO. 1-G, RATES, AND CHARGES, TO ADD A NEW RATE FOR CRUISE FACILITY IMPROVEMENT FEE IN THE AMOUNT OF \$5.50 PER PASSENGER**
- B. RESOLUTION ESTABLISHING A CRUISE FACILITY IMPROVEMENT FUND RESOURCED THROUGH THE CRUISE FACILITY IMPROVEMENT FEE**
- C. RESOLUTION AMENDING THE FY 2019-2023 CAPITAL IMPROVEMENT PROGRAM (CIP) TO ADD THE B STREET CRUISE SHIP TERMINAL INTERIOR IMPROVEMENTS PROJECT WITH A PROJECT BUDGET OF \$5,000,000**
- D. RESOLUTION APPROVING A FY 2023 BUDGET TRANSFER, IN ACCORDANCE WITH BPC POLICY NO. 90, TRANSFERRING \$650,000 FROM THE EQUIPMENT OUTLAY AND OTHER CAPITAL PROJECTS APPROPRIATION TO THE CAPITAL IMPROVEMENT PROGRAM APPROPRIATION FOR DESIGN COSTS AND GEOTECHNICAL STUDY FOR THE B STREET CRUISE SHIP TERMINAL INTERIOR IMPROVEMENTS PROJECT**
- E. RESOLUTION AUTHORIZING AMENDMENT NO. 1 TO THE AGREEMENTS WITH DOMUSSTUDIO ARCHITECTURE, SILLMAN WRIGHT ARCHITECTS, AND ROESLING NAKAMURA TERADA ARCHITECTS, INC. FOR AS-NEEDED ARCHITECTURAL SERVICES INCREASING THE AGGREGATE AGREEMENT AMOUNT BY \$350,000 FROM \$800,000 TO A NEW NOT-TO-EXCEED AMOUNT OF \$1,150,000. FUNDS REQUIRED FOR THE CURRENT FISCAL YEAR ARE INCLUDED IN THE APPROVED FY 2023 BUDGET. ALL FUNDS REQUIRED FOR FUTURE FISCAL YEARS WILL BE BUDGETED IN THE APPROPRIATE FISCAL YEAR, SUBJECT TO BOARD APPROVAL UPON ADOPTION OF EACH FISCAL YEAR'S BUDGET**
- F. RESOLUTION AUTHORIZING AMENDMENT NO. 1 TO THE AGREEMENTS WITH MOFFATT & NICHOL, GHD, TRITON ENGINEERS, AND SIMPSON GUMPERTZ & HEGER, INC. FOR AS-NEEDED MARINE STRUCTURAL SERVICES, INCREASING THE AGGREGATE AGREEMENT AMOUNT BY \$300,000 FROM \$4,000,000 TO A NEW NOT-TO-EXCEED AMOUNT OF \$4,300,000. FUNDS REQUIRED FOR THE CURRENT FISCAL YEAR ARE INCLUDED IN THE APPROVED FY 2023 BUDGET. ALL FUNDS REQUIRED**

FOR FUTURE FISCAL YEARS WILL BE BUDGETED IN THE APPROPRIATE FISCAL YEAR, SUBJECT TO BOARD APPROVAL UPON ADOPTION OF EACH FISCAL YEAR'S BUDGET

EXECUTIVE SUMMARY:

The District operates two cruise ship terminals, B Street Cruise Ship Terminal, and Port Pavilion on Broadway Pier. The B Street Cruise Ship Terminal serves as the District's primary cruise ship facility. The B Street Cruise Ship Terminal has served this function since 1985, when it was converted from a cargo warehouse. The cruise industry has evolved, and customer service standards have changed since then, offering passengers/guests better vessels that can deliver more amenities. However, as the market has changed, B Street Cruise Ship Terminal has remained much the same as it did when first remodeled. The proposed resolutions allow the District to implement the first major interior upgrade to the facility in over 37 years.

The B Street Cruise Ship Terminal Interior Improvements Project (Project) will enhance the passenger experience and embarkation process by demolishing and opening currently unusable space, providing better technological check-in efficiencies, allowing for additional social distancing between passengers, and significantly improving the aesthetics of the facility. The total project cost is estimated at \$5 million. Attached is a diagram of the proposed area for improvement (Attachment A)

Staff recommends the establishment of a Cruise Facility Improvement Fee (CFI FEE) that is intended to pay for the Project. The Cruise Facility Improvement Fund (CFI FUND) is intended to house accumulated CFI FEE and provide a funding source for the proposed Project and potential future approved cruise ship terminal improvement projects outside the District's scheduled Major Maintenance Program.

To establish the CFI FEE and CFI FUND, staff is proposing an amendment to San Diego Unified Port District Tariff 1-G, Rate and Charges by adding a \$5.50 (five dollars and fifty cents) per passenger CFI FEE to be effective November 1, 2022 (Attachment B). The CFI FEE would be a fee in addition to and independent of the current \$10 (ten dollars) passenger fee. Like the current passenger fee, the CFI FEE will be charged to cruise lines for the use of the District's cruise facilities and, together with all current tariff rates and charges, remains a reasonable fee in exchange for the benefits cruise lines receive for the use of the District's facilities. The CFI FEE would bring the cruise lines' total per passenger movement charge to \$15.50 (fifteen dollars and fifty cents). From a competitive standpoint, this fee is still within range of the Port of Los Angeles, the District's closest competitor, which charges \$15.65 per passenger movement.

Staff projects that the collection of the CFI FEE will result in the accumulation of \$4.35 million by October 2024. The projected project payment schedule and funding sources are as follows:

| Date | Project Payment | Funding Source | |
|---------------|-----------------|----------------|-------------|
| | | District | CFI Fee |
| August 2022 | \$650,000 | \$650,000 | - |
| December 2023 | \$4,350,000 | \$1,750,000 | \$2,600,000 |

The initial required \$650,000 District outlay has been included in the FY 2023 Budget under Equipment Outlay and Other Capital Projects and will be transferred to Capital Improvement Program upon Board approval. Staff will request the Board's approval to fund the remaining \$1.75 million required District outlay during the FY 2024 Budget process. All District construction funding, in the amount of \$1.75 million, is expected to be returned to reserves through accumulated CFI FEE by October 2024.

Staff proposes that the Project be implemented through the District's Capital Improvement Program (CIP). This will require an amendment to the FY 2019-2023 CIP and FY 2023 CIP budget, adding this project and budget in the amount of \$5 million. The project will also necessitate capital labor in the amount of \$300,000. \$650,000 has already been budgeted for design and geotechnical investigation in the FY 2023 budget.

To kick off the Project and begin project design, staff recommends selecting a consultant from the existing as-needed architectural services agreement. On October 13, 2021, the Board authorized a five-year agreement with Domusstudio Architecture, Sillman Wright Architects, and Roesling Nakamura Terada Architects, Inc. for as-needed architectural services for an aggregate amount not to exceed \$800,000. This proposed action will increase the aggregate capacity of the agreements by \$350,000. And will provide the capacity required for this project while maintaining the as-needed agreements' capacity to support other budgeted District projects.

For Project geotechnical investigation and building permit processing, staff recommends selecting a consultant from the as-needed marine structural service agreement. On October 13, 2021, the Board authorized a five-year agreement with Moffatt & Nichol, GHD, Triton Engineers, and Simpson Gumpertz & Heger, Inc. for as-needed marine structural services for an aggregate amount not to exceed \$4,000,000. This proposed action will increase the aggregate capacity of the agreements by \$300,000. And will provide the capacity required for this project while maintaining the as-needed agreements' ability to support other budgeted District projects.

RECOMMENDATION:

B Street Cruise Ship Terminal Interior Improvements and Facility Fee

- A. Conduct a public hearing and adopt an ordinance amending the San Diego Unified Port District Tariff no. 1-G, Rates and Charges, to add a new rate for Cruise Facility Improvement Fee in the amount of \$5.50 per passenger.
- B. Adopt a Resolution establishing a Cruise Facility Improvement Fund resourced through a Cruise Facility Improvement Fee.
- C. Adopt a Resolution amending the FY 2019-2023 Capital Improvement Program to add the B Street Cruise Ship Terminal Interior Improvements Project with a project budget of \$5,000,000

- D. Adopt a Resolution approving a FY 2023 budget transfer, in accordance with BPC Policy 90, transferring \$650,000 from the Equipment Outlay and Other Capital Projects appropriation to the Capital Improvement Program appropriation for design costs and geotechnical study for the B Street Cruise Terminal Interior Improvements Project.
- E. Adopt a Resolution authorizing Amendment No. 1 to the agreements with Domusstudio Architecture, Sillman Wright Architects, and Roesling Nakamura Terada Architects, Inc. for as-needed architectural services increasing the aggregate agreement amount by \$350,000 from \$800,000 to a new not-to-exceed amount of \$1,150,000. Funds required for the current fiscal year are included in the approved FY 2023 budget. All funds required for future fiscal years will be budgeted in the appropriate fiscal year, subject to board approval upon adoption of each fiscal year's budget.
- F. Adopt a Resolution authorizing Amendment No. 1 to the agreements with Moffatt & Nichol, GHD, Triton Engineers, and Simpson Gumbert & Heger, Inc. for as-needed marine structural services, increasing the aggregate agreement amount by \$300,000 from \$4,000,000 to a new not-to-exceed amount of \$4,300,000. Funds required for the current fiscal year are included in the approved FY 2023 budget. All funds required for future fiscal years will be budgeted in the appropriate fiscal year, subject to board approval upon adoption of each fiscal year's budget.

FISCAL IMPACT:

Staff projects that the collection of the CFI FEE will result in the accumulation of \$4.35 million by October 2024. Required Project payment amounts, CFI FEE, and District funding sources are as follows:

| Date | Project Payment | Funding Source | |
|---------------|-----------------|----------------|-------------|
| | | District | CFI Fee |
| August 2022 | \$650,000 | \$650,000 | - |
| December 2023 | \$4,350,000 | \$1,750,000 | \$2,600,000 |

The initial required \$650,000 District outlay has been included in the FY 2023 Budget under Equipment Outlay and Other Capital Projects and will be transferred to Capital Improvement Program upon Board approval. Staff will request the Board's approval to fund the remaining \$1.75 million required District outlay during the FY 2024 Budget process. All District construction funding, in the amount of \$1.75 million, is expected to be collected and returned to reserves from the CFI FEE by October 2024.

Forecasted collected CFI FEE and accumulated CFI FEE in Cruise Facility Improvement Fund is as follows:

| <u>Fiscal Year</u> | <u>2023</u> | <u>2024</u> | <u>2025</u> |
|----------------------------------|--------------------|--------------------|--------------------|
| <u>CFI FEE</u> | \$1,280,000 | \$2,656,500 | \$2,739,000 |
| <u>Cumulative CFI FEE</u> | \$1,280,000 | \$3,936,500 | \$6,675,500 |

COMPASS STRATEGIC GOALS:

This agenda item supports the following Strategic Goal(s).

- A thriving and modern maritime seaport.
- A vibrant waterfront destination where residents and visitors converge.
- A Port that is a safe place to visit, work, and play.
- A financially sustainable Port that drives job creation and regional economic vitality.

DISCUSSION:

The District operates two cruise ship terminals, B Street Cruise Ship Terminal, and Port Pavilion on Broadway Pier. The B Street Cruise Ship Terminal serves as the District's primary cruise ship facility. The B Street Cruise Ship Terminal has served this function since 1985, when it was converted from a cargo warehouse. The industry has evolved, and customer service standards have changed since then, offering passengers/guests better vessels that can deliver more amenities. However, as the market has changed, B Street Cruise Ship Terminal has remained much the same as it did when first remodeled. The proposed resolutions allow the District to implement the first major interior upgrade to the facility in over 37 years.

STATE OF THE CRUISE INDUSTRY AND OUTLOOK

After the onset of COVID-19 and the subsequent halt to cruise operations, the industry has worked with health experts and national, state, and local leaders to implement health protocols that would safely allow the resumption of cruising. Cruising resumed in Europe in June 2020, the United States in June 2021, and San Diego in October 2021. The industry has since redeployed all its North America fleet. Ships, however, are sailing at less than full capacity, with voyages sailing at 50-80% full. Industry forecasts by the end of 2022, cabins will be entirely sold out, as was the case pre-pandemic.

Cruise is a global industry, and with several East Asian nations still not open to calls or a total return to tourism, the industry has had to pivot. Cruise is flexible and mobile and has been able to move tonnage to ports positioned for expansion. San Diego is one of those well-positioned ports. In FY 2022, the District welcomed 101 cruise calls, a modest increase compared to pre-pandemic numbers; however, in the upcoming FY 2023 season, over 140 calls are on the schedule. Disney Cruise Line will expand its presence in San Diego, moving from an annual offering of 16 to 24 calls a year in autumn and spring to 51 cruises from September thru May. In addition, new business begins September 1 with 24 sailings offered by Diamond Princess. Princess Cruises has historically offered visitations to San Diego. This year marks the beginning of homeport voyages from San Diego.

HISTORICAL PASSENGER NUMBERS

| Fiscal Year | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------|---------|---------|---------|---------|------|---------|
| Passengers | 224,453 | 259,937 | 330,073 | 230,941 | 0 | 187,300 |

Note: No passenger cruises were conducted from March 2020 to October 2021.

FORECASTED PASSENGER NUMBERS

| Fiscal Year | 2023 | 2024 | 2025 | 2026 | 2027 |
|-------------|---------|---------|---------|---------|---------|
| Passengers | 469,000 | 483,000 | 498,000 | 512,000 | 528,000 |

Before COVID-19, 2021 had 137 cruise calls scheduled, which would have resulted in an estimated 450,000 passengers. Based on feedback from the District's primary cruise line customers, it was forecasted that in FY 2022, the District would welcome 144 cruise calls and over half a million passengers. This growth was overwhelmingly from Carnival Cruise Line. Unfortunately, during the pandemic, Carnival sold vessels and contracted its West Coast operations to the Port of Long Beach. However, while several lines sold or scrapped vessels to remain in business, it is also true that shipyards continue to build new vessels. Among the District's three largest customers, Disney Cruise Line, Holland America Line, and Princess Cruises, and the most substantial potential for new growth, Carnival Cruise Line, ten new vessels are planned or under construction.

San Diego is a key homeport on the West Coast. With the shortest steam time to the Mexican Riviera, San Diego offers a geographically strategic position for cruise lines to offer longer stays to passengers in marquee Mexican ports. There is no doubt that as cruise grows on the West Coast, San Diego will share in that growth. Cruise berths are limited in Southern California, with three in San Diego, three in Los Angeles, and one in Long Beach. In addition, San Diego offers benefits that the other Southern California ports do not. With terminals located Downtown and only a few miles to international airlift, passengers benefit from a well-connected homeport and a world-class destination to enjoy before or after their cruise. This benefit to the passenger is also a benefit to San Diego. Passengers that stay before or after their cruise contribute to the regional economy through spending. It is estimated that the cruise will contribute \$220 million to the San Diego County economy this fiscal year alone.

THE B STREET CRUISE SHIP TERMINAL IMPROVEMENTS PROJECT

The B Street Cruise Ship Terminal was originally converted in 1985 from a circa 1950 cotton warehouse. Since that initial conversion, a mobile passenger boarding bridge, baggage tents, shore power system, and escalator have been installed. However, additional improvements are needed to maintain the business. Improvements will be internal to the B Street Cruise Ship Terminal. They will target enhancing customer service, opening underutilized space, improving passenger flow, and upgrading security and technology capabilities.

The proposed improvements include demolishing the existing Exhibit Hall area, consisting of approximately 10,700 square feet of unusable space. This space, once cleared, will operate as the south berth vessel's check-in area. This will allow all check-in functions to be moved from the waiting area. As a result, the waiting area will have additional space to function solely as passenger waiting. In addition, guest-focused improvements such as new restrooms, flooring, and lighting would be

implemented. Safety and security would also be improved by an expanded fire alarm system, electrical and data connections for passenger screening equipment, an added security restroom, an office, and an expanded security screening area.

As part of the design process, a geotechnical study would be conducted to prepare the facility for required building permits.

Cruise Facility Improvement Fee (CFI FEE) is intended to pay for the Project. The Cruise Facility Improvement Fund (CFI FUND) is intended to house accumulated CFI FEE and provide a funding source for the proposed Project and potential future approved cruise ship terminal improvement projects outside of scheduled major maintenance.

PROJECT FUNDING AND TARIFF AMENDMENT

To establish the CFI FEE and CIF FUND, staff is proposing an amendment to San Diego Unified Port District Tariff 1-G, Rate and Charges by the addition of a \$5.50 (five dollars and fifty cents) per passenger CFI FEE to be effective November 1, 2022 (Attachment B). This would be a fee in addition to and independent of the current \$10 (ten dollars) passenger fee. Like the current passenger fee, the CFI FEE will be charged to cruise lines for the use of the District's cruise facilities and, together with all current tariff rates and charges, remains a reasonable fee in exchange for the benefits cruise lines receives for the use of the District's facilities. The CFI FEE would bring the cruise lines' total per passenger movement charge to \$15.50 (fifteen dollars and fifty cents). From a competitive standpoint, this fee is still within range of the Port of Los Angeles, the District's closest competitor, which charges \$15.65 per passenger movement.

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CAPITAL IMPROVEMENT PROGRAM

Staff proposes that the Project be implemented through the District's Capital Improvement Program

(CIP). This will require an amendment to the FY 2019-2023 CIP and FY 2023 CIP budget, adding this project and budget in the amount of \$5 million. The project will also necessitate capital labor in the amount of \$300,000. \$650,000 has already been budgeted for design and geotechnical investigation in the FY 2023 budget.

For project design, staff recommends selecting a consultant from the existing as-needed architectural services agreement. On October 13, 2021, the Board authorized a five-year agreement with Domusstudio Architecture, Sillman Wright Architects, and Roesling Nakamura Terada Architects, Inc. for as-needed architectural services for an aggregate amount not to exceed \$800,000. When the as-needed agreements for architectural services were developed and approved, the opportunity for this new project had not materialized. Accordingly, the capacity to support its design effort was not included in the capacity for the as-needed architectural services agreements. This proposed action will increase the aggregate capacity of the agreements by \$350,000. And will provide the capacity required for this project while maintaining the as-needed agreements' capacity to support other budgeted District projects.

For project geotechnical investigation needs for building permit, staff recommends selecting a consultant from the as-needed marine structural service agreement. On October 13, 2021, the Board authorized a five-year agreement with Moffatt & Nichol, GHD, Triton Engineers, and Simpson Gumpertz & Heger, Inc. for as-needed marine structural services for an aggregate amount not to exceed \$4,000,000. When the as-needed agreements for marine structural services were developed and approved, the opportunity for this new project had not materialized. Accordingly, the capacity to support its geotechnical investigation effort was not included in the capacity for the as-needed marine structural agreements. This proposed action will increase the aggregate capacity of the agreements by \$300,000. And will provide the capacity required for this project while maintaining the as-needed agreements' capacity to support other budgeted District projects.

General Counsel's Comments:

The Office of the General Counsel has reviewed and approved this agenda and proposed ordinance and resolutions, as presented, as to form and legality.

Environmental Review:

The proposed Board actions, including, without limitation, approving funding for cruise ship terminal improvements, do not constitute a project under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Sections 15352 and 15378 because no direct or indirect changes to the physical environment would occur. CEQA requires that the District adequately assess the environmental impacts of projects and reasonably foreseeable activities that may result from projects prior to the approval of the same. Any project developed as a result of the proposed Board actions requiring the District or the Board's discretionary approval resulting in a physical change to the environment would be analyzed in accordance with CEQA prior to such approval. CEQA review may result in the District, in its sole and absolute discretion, requiring implementation of mitigation measures, adopting an alternative, including without limitation, a "no project alternative," or adopting a Statement of Overriding Consideration, if required. The exercise of this discretion is in no way limited by this proposed Board actions. Therefore, no further CEQA review is required.

The proposed Board actions comply with Sections 21, 35, and 87 of the Port Act, which allow the

Board to pass resolutions and to do all acts necessary and convenient for the exercise of its powers, and which authorizes the use of tidelands for the construction, reconstruction, repair, maintenance, and operation of wharves, docks, piers, slips, quays, and all other works, buildings, facilities, utilities, structures, and appliances incidental, necessary, or convenient, for the promotion and accommodation of commerce and navigation. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board actions are consistent with the Public Trust Doctrine.

The proposed Board actions do not allow for development, as defined in Section 30106 of the California Coastal Act, or new development, pursuant to Section 1.a. of the District's Coastal Development Permit (CDP) Regulations because there will not be, without limitation, a physical change, change in use or increase the intensity of uses. Therefore, issuance of a Coastal Development Permit or exclusion is not required. However, development within the District requires processing under the District's CDP Regulations. Future development would remain subject to its own independent review pursuant to the District's certified CDP Regulations, Port Master Plan (PMP), and Chapters 3 and 8 of the Coastal Act. The exercise of the District's discretion under the District's CDP Regulations is in no way limited by the proposed Board actions."

Diversity, Equity, and Inclusion Program:

The three consultants for As-Needed Architectural Services are Small Business Enterprise (SBE), and one is also a Minority Business Enterprise (MBE).

One of the four consultants for As-Needed Marine Structural Engineering Services is an SBE, and of the other three, two of the consultants identified an SBE sub-participant, including an MBE and a Disabled Veteran Business Enterprise.

PREPARED BY:

Adam Deaton
Senior Trade Account Rep., Maritime

Attachment(s):

Attachment A: B Street Cruise Ship Terminal Interior Improvements Concept

Attachment B: Proposed Amendment to San Diego Unified Port District Tariff, 1-G, Rates, and Charges