

City of Nanaimo
REPORT TO COUNCIL

DATE OF MEETING: 2013-OCT-21

AUTHORED BY: BILL CORSAN, MANAGER OF REAL ESTATE

RE: UPDATE ON ISLAND FERRY SERVICES LTD. EFFORTS TO ESTABLISH FOOT
PASSENGER FERRY SERVICE

STAFF RECOMMENDATION:

That Council receive this report for information.

PURPOSE:

To update Council on the proposal by Island Ferry Services Ltd. (IFSL) to establish a foot passenger only ferry service between downtown Nanaimo and downtown Vancouver.

SUMMARY:

For the past four years, IFSL has been developing a business plan for a foot passenger ferry service between downtown Nanaimo and downtown Vancouver.

IFSL has requested that the City provide a long-term lease for a waterfront terminal at the recently acquired City-owned lands at 1 Port Drive. Discussions have centered on the use of the existing GADD Marine lease area on an interim basis and a permanent location on the Seaspan lands to the north when they become available. Attachment A illustrates the proposed terminal locations.

IFSL is currently seeking equity investors to help finance the project.

IFSL has identified three revenue streams for the City which include lease revenue for the terminal facility, a \$0.25 per passenger head tax and half of the parking revenue from City-owned lands. The IFSL business plan requires the City to forgive \$500,000 of revenue per annum for the initial five years of the operation. Under the *Community Charter*, the City is required to enter into a Partnering Agreement to provide assistance to business. In exchange for the assistance, IFSL has committed to provide a base service level which would include a minimum of three round trip sailings a day or 2,190 sailings per annum.

Once more details are available, Staff will return to Council with a Staff report requesting approval to enter into a formal Partnering Agreement and to issue a lease to IFSL for the construction of a terminal facility at 1 Port Drive.

BACKGROUND:

On 2012-MAY-22 the Regional District of Nanaimo, City of Nanaimo, the Nanaimo Economic Development Corporation and IFSL entered into a formal Collaborative Relationship Agreement to support IFSL's Green Municipal Fund (GMF) loan application and to work together to bring the project to fruition.

On 2012-JUL-27 the partners listed above and the Nanaimo Port Authority (NPA) entered into a Memorandum of Understanding (MOU) to work together to establish a passenger ferry terminal on NPA land.

On 2013-AUG-28 IFSL indicated that it would not be pursuing the GMF funding.

Island Ferry Services Ltd. Proposal

The proponent has developed a business plan and financial model with the assistance of consultants and financial advisors. IFSL's studies show that the ferries will generate around 1 million passenger trips per year by year three. Overall private investment necessary for the project to proceed is estimated to be \$63.5 million.

The proposed ferry service will be provided by two recently-constructed Damen 4212 catamarans, each of which will accommodate up to 376 passengers. The vessels will be registered in Nanaimo and have been built to Transport Canada standards. The ships are currently awaiting delivery in a Singapore shipyard.

Operations are to be based out of Nanaimo with both ships berthing overnight in Nanaimo. Safety and environmental management, customer service and reservations, maintenance, personnel/crewing and catering operations will be conducted from Nanaimo. Fueling will also be conducted in Nanaimo. Corporate functions will be performed in Victoria.

Terminal Location

Based on the 2012-JUL-27 MOU, IFSL and the NPA entered into discussions to locate the passenger ferry terminal at a NPA facility on the Assembly Wharves. These discussions proved to be unsuccessful.

Subsequently, IFSL approached the City to explore the opportunity of establishing the ferry terminal on the City's recently acquired lands at 1 Port Drive. The majority of the City lands are encumbered by rights of way which limit the immediate development potential.

GADD Marine, a current tenant at 1 Port Drive will be terminating its lease at the end of October 2013. This creates an opportunity for IFSL to construct a temporary terminal facility within the lease area. The long term goal would be to relocate to the existing Seaspan terminal. Attachment A illustrates the proposed interim and permanent terminal locations.

If the GADD site was selected as an interim location by IFSL, a portable manufactured building would be located on site and operate as a welcome centre with ticketing and an initial clearance point for embarking passengers. The terminal would also be a holding point for passengers in the event of a significant schedule disruption. A temporary fueling facility would be constructed on the upland portion of the site to supply fuel to the vessels. IFSL would temporarily drive four piles in the water lot and connect a floating barge to act as a dock for the vessels.

The City of Nanaimo would provide water and sewer connections to the terminal building at the City's cost. A preliminary cost estimate for the GADD site is \$115,000.

Parking for the interim terminal would be located on lands south of the existing wooden trestle on lands owned by CP Rail.

The permanent location will be influenced by the work currently being conducted by the South Downtown Waterfront Initiative and through the ability to reduce or reconfigure the right of way occupied by Seaspan Ferry Corporation.

Proposed Partnering Agreement

The *Community Charter* section 21(a) enables a municipality to enter into a partnering agreement for the provision of a service on behalf of the municipality. This is an exception to the general prohibition against providing assistance to business. Section 24(d) requires Council to provide public notice in the local newspaper for two weeks prior to entering into the agreement.

Under the partnering agreement, IFSL will commit to providing at least three round trip sailings a day, or 2190 sailings per annum.

The partnering agreement will provide the City with three new revenue sources:

- lease revenue from the proposed terminal (interim terminal = \$60,000 per annum);
- a \$0.25 passenger tax collected by IFSL and passed on to the City; and
- 50% of net parking revenue on City lands.

The City will require the ability to audit the passenger tax and parking revenue to ensure the validity of the revenues.

IFSL has requested the City help incubate the business for the first five years by forgiving \$125,000 per quarter (\$500,000 per year) of revenue owed to the City by IFSL from these three revenue sources. Any revenue exceeding \$125,000 would be retained by the City. After five years, the subsidy would terminate except that IFSL can 'bank' its losses if not covered by the revenue forgiven by the City.

Existing Challenges to Address

Entering into a partnering agreement and issuing a lease to IFSL has a number of challenges that will need to be addressed. This includes the following:

- South Downtown Waterfront Initiative – the planning process for the South Downtown Waterfront has recently commenced and it may be premature to locate a permanent use within the study area. The future long-term siting of IFSL should be part of the proposed transportation hub.
- Uncertainty Relating to the Seaspan Right of Way – Seaspan Ferry Corporation has indicated its desire to relocate to Duke Point by 2015. The exact timing for this relocation and the costs associated with the City acquiring the right of way area are not clear at this point. This makes it challenging to identify the relocation timing for IFSL to a permanent location on the Seaspan terminal.
- Access via the Wooden Trestle – the interim lease area is accessed via the wooden trestle. Engineering reports indicate that the trestle must be replaced by 2016. Additional traffic on the trestle may also require an increased level of maintenance.

- **Traffic Impact at Interim Location**– This increased volume of traffic may require reconfiguration of the Esplanade, Irwin and Cavan Street intersection.
- **Lack of Servicing** – the interim lease area has no utility connections. IFSL is expecting the City, at the City's cost, to extend the water and sewer lines to the site as part of the partnering agreement. The permanent location will also require servicing.
- **Desire for a Long-Term Lease** – IFSL would like a long-term lease. Based on the low level of capital improvements made to the site, it is hard to warrant such a long-term lease. A long-term lease also restricts future use of the site for a considerable amount of time and may constrain redevelopment of the lands.
- **Requirement for Detailed Planning by IFSL** – IFSL has not yet completed any detailed concept planning work for the interim or permanent terminal locations to prove that its operations from a water and upland perspective can operate effectively.

Next Steps

In order to move forward with the proposal, IFSL need to secure private equity financing.

A formal partnership agreement will need to be prepared and mutually agreed upon by IFSL and the City. This document will be brought to Council for approval in principle. The *Community Charter* requires the City to publish a notice in a local newspaper for two consecutive weeks prior to the agreement being approved.

A formal lease agreement will be brought to Council outlining the lease area, the triggers for relocation, term and rent. The granting of a lease also requires the City to publish a notice of disposition in the local paper for two consecutive weeks.

The lease agreement will contain a number of conditions precedent which will have to be met prior to the granting of the lease. This includes detailed design work, development and building approvals and traffic studies.

Strategic Plan Considerations

The IFSL proposal meets three of the key priorities identified in the 2012-2015 Strategic Plan, including;

Strategy	Potential Strategies and/or Initiatives
Waterfront Enhancement	<ul style="list-style-type: none"> • A working waterfront that supports business, marine industries, transportation connectivity, entertainment and tourism. • Enhanced public access and use.
Transportation and Mobility	<ul style="list-style-type: none"> • Economic growth in part due to enhanced transportation connections to Victoria, Vancouver and the world. • Work with RDN, NEDC, Chamber of Commerce, Nanaimo Port Authority, BC Ferries, BC Transit, Airport Authority, Island Corridor Foundation, advocates for and support improvement of external connections: inter-city bus, ferries, fast foot ferry to downtown Vancouver, float planes, enhanced air connections.
Taking Responsibility	<ul style="list-style-type: none"> • Continuing to facilitate change and overall development consistent with vision and plans; taking action steps to be a catalyst or investment in the City's future.

Respectfully submitted,



Bill Corsan
MANAGER
REAL ESTATE

Concurrence by:



Andrew Tucker

DIRECTOR
PLANNING



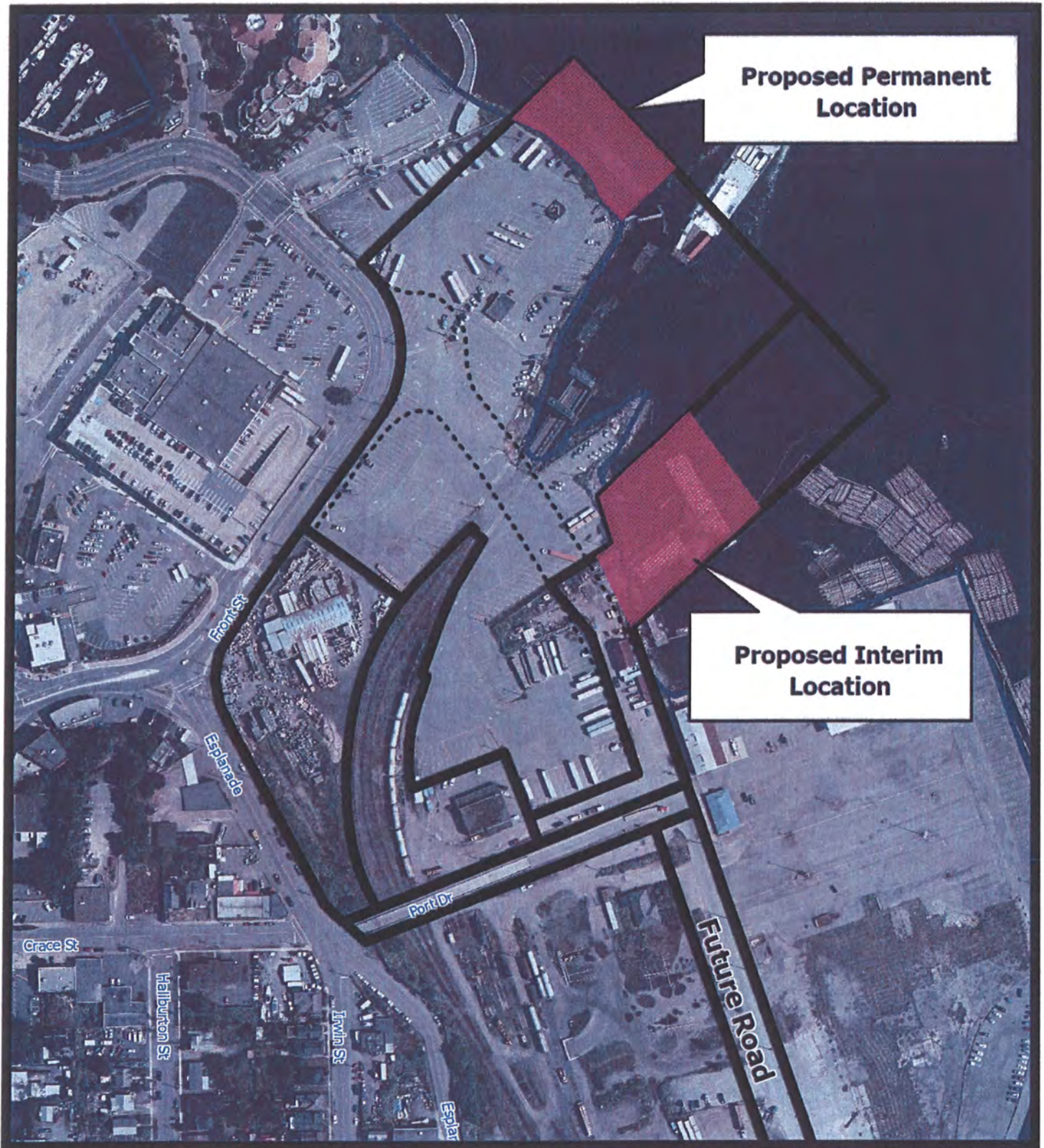
Ian Howat
ACTING GENERAL MANAGER
CORPORATE SERVICES

CITY MANAGER COMMENT:

I concur with the Staff recommendation.

Drafted: 2013-OCT-07
LD002678
BC/tl

ATTACHMENT A



Island Ferry Services Ltd
Potential Terminal Locations at
1 Port Drive