

Cayman Islands Cruise Berthing Facility

DRAFT FOR DISCUSSION

Short-listing of Options

25 July, 2013

Introduction

The Cayman Islands Government's Strategic Outline Case ('SoC') for cruise berthing identifies eight separate strategic options for the purposes of considering the outline business ('OBC') case for cruise berthing.

During the period from project commencement to 23 July, the project team has consulted with a range of sources with respect to the various options, including:

- PACI;
- Other key stakeholders within the public sector, including the Department of Tourism, Department of the Environment and the National Roads Authority;
- A number of stakeholder meetings covering the key private sector stakeholders in the Cayman Islands, organized with the co-operation of the Chamber of Commerce; and
- Meetings with the FCCA and the major cruise lines currently operating in the Cayman Islands.

Data has been collected on historical and forecast cruise schedules, market research on regional competitor destinations and comparable data for likely capital cost commitments.

As required under the project plan, the eight strategic options shall now be shortlisted to the core options, on which the detailed evaluation shall be conducted. Based on that detailed evaluation, the Preferred Technical Option shall be identified.

This note documents the rationale adopted in developing the shortlisted options.

Summary of Options and Phasing Considerations

Appendix 1 to this note sets out the summary of each of the eight options, together with the qualitative and quantitative evaluation criteria and overall rankings. The criteria were scored on a comparative basis when evaluating the impact (from the lowest to the highest) of each option in each criteria category.

The eight technical options are distinguished by the extent of works to the passenger port, the cargo port and landside.

Consistent with the scope of the OBC, any landside development refers only to limited improvements in immediate pedestrian/vehicle access ways and embarking/disembarking areas. Accordingly, for the purpose of shortlisting the options, no major downtown redevelopments / commercial real estate developments are considered, including none of the possible outcomes on the more global traffic flow management in George Town.

Based on the consultations conducted to date, it is noted that irrespective of which option is eventually selected as the Preferred Technical Option, there is an existing need to address transport and downtown infrastructure issues to maximize tourist potential.

The eight technical options are also distinguished by the timing of the proposed works to the passenger port and the cargo port. Time distinction is made between the option to proceed with the works now, that is following the approval of the OBC and a conclusion of competitive tendering process, or in the future. When evaluating future options, the time horizon taken is beyond five years.

Passenger Port Phasing

In practice, where the reasonably predictable volume demand over the medium term supports two piers immediate construction of both piers would likely be the favoured option – as opposed to a phased construction approach – in order to avoid duplication of significant construction and mobilization costs and to avoid disruptions to operations of the first pier during construction of the second pier.

Where the reasonably predictable volume demand over the medium term does not support two piers, construction of one pier would likely be the favoured option. This would be the case even if a longer-range forecast of cruise volumes indicated that a second pier would become viable in say 5 – 10 years time.

However, even in the construction of the one pier option, it will be important to adopt a design that anticipates and allows for subsequent development of a second pier. In this way, there is no practical difference in the short term between the “One Pier” option (Option 3) and the “Phased Two Piers” option (Option 4).

For purposes of the shortlisting of options, the approach of designing and constructing one pier with the ability to add a second pier in the medium to longer term is identified as Option 4, ‘Phased Two Piers’. Given the significant uncertainties over longer term cruise volume estimates, and therefore the possible timing of a second pier, Option 4 will only consider the cost of the first pier in the development of the financial business case. However, the Option 4 design will ensure sufficient flexibility to enable the subsequent development of a second pier without creating unnecessary costs such as, for example, the need to move the cargo port.

Cargo Port Phasing

Similarly, with respect to a phased approach to moving cargo, if current cruise berthing and cargo volumes expectations do not necessitate an immediate move, any future rationale for a move would be based on long term predictions of increases in cargo and/or volumes. Such forecasts would be inherently highly uncertain.

For purposes of the shortlisting of options, the approach of designing and constructing two piers with the ability to operate alongside cargo but anticipating a possible future need to relocate cargo is identified as Option 7, ‘Two Piers + Future Cargo Relocation’. Given the significant uncertainties over the possible future timing, cost and profitability of cargo relocation, Option 7 will only consider the cost of the two piers in the development of the financial business case.

Once again however, the two pier design in Option 7 would be undertaken in a way that does not restrict the future ability to move cargo. In this way, there is no practical difference in the short term between the “Two Piers” option (Option 6) and the “Two Piers + Future Cargo Relocation” option (Option 7).

For purposes of the shortlisting of options, we define Option 5 ‘Phased two piers + future cargo relocation’ as constructing one pier immediately and subsequently constructing a second pier at the same time as carrying out a move of the cargo operations. Accordingly, under Option 5, the construction of the second pier would be expected to necessitate the move of cargo, with the overall two pier design making full use of all existing space.

By contrast, Option 4 ‘Phased two piers’ is defined as designing and constructing one pier immediately in such a way as to ensure that a possible second pier could in the future be constructed without necessitating the need to move cargo operations. That is, under Option 4 the overall design would allow for two piers at some point in the future, without impacting the existing cargo operations. However, Option 4 does not preclude an eventual move of cargo if and when it is deemed necessary.

Evaluation Criteria

The SoC options are evaluated against five broad sets of criteria:

1) Cruise Tourism Objectives

This considers the extent to which the options meets the core objectives of the project; that is, to address the cruise lines' wish for cruise berthing to mitigate delays and risk, as well as the Cayman Islands' objective of protecting current cruise market share, attracting new cruise volumes and maximizing visitors time / money spent on-island.

Expected berthing utilization and the proportion of ships unable to berth is a key indicator of how well these cruise tourism objectives are met by each option. In some options, on certain days, not all cruise ships would have a berthing spot available, thus requiring tendering. To evaluate the utilization factor of each option, both the percentage of passenger being tendered and number of ships being tendered were calculated on a day-by-day basis using historical 2011 figures and booked visits for 2014 (as provided by the PACI).

In addition to quantitative ratios, tourist experience also needs to be assessed from the qualitative point of view. Two considerations were selected in this regard: decreased passenger experience of embarking/disembarking in a close vicinity of a construction site during the construction, and potential improvement resulting from the spatial separation of passenger and cargo operations. Because the landside development is limited to the immediate vicinity of the passenger piers, it results in essentially the same improvements for all options (except status quo), thus, does not allow to differentiate among the options.

Currently the use of tendering in the Cayman Islands facilitates use of a second anchorage option at Spotts during inclement weather. On average, this enables cruise visits for up to two ships for c.14-16 days per year, which otherwise would not have taken place. Albeit the actual level of disembarkation on such days is relatively low.

Given that tendering is provided by one private operator, under some of the options provided, it is likely that such tendering would no longer be commercially viable and there would therefore be some loss of this ability to use Spotts during inclement weather. However, it is noted that self-tendering cruise ships would be able to continue anchoring at Spotts on such days.

2) Affordability / Financial Risk

With the exception of the status quo (Option 1), all other options require some level of design-build expenditures. Because of a very preliminary scope of this assessment, these expenditures are illustrated in Appendix 1 in wide ranges intended to establish the relative 'orders of magnitude' between the options as opposed to an accurate estimate of design-build budget.

The cost ranges are relatively high, even in a regional context, and this underlines some of the technical difficulties relating to implementing cruise berthing in the Cayman Islands, most importantly the lack of a protected natural harbor.

In light of the strategic objective that this project is self-financing, with no hypothecation of Government revenues streams, nor any tied-in upland retail concessions, affordability will largely be governed by the market pricing of cruise levies. This approach puts considerable pressure on financial risk of the project and the affordability of the more capital intensive options.

While at this stage no detailed assessment of the financial viability of the various options has been undertaken, based on the revenue streams and capital cost ranges identified it is highly unlikely that a two pier project would be commercially self-financing based solely on incremental berthing fees and PACI's existing share of passenger head taxes. Accordingly, in order for the OBC to assess a realistically viable two pier option, it would be necessary to consider the inclusion of additional revenue support from Government, possibly in the form of

hypothecation of passenger head taxes, or alternatively some element of new commercial development within the project parameters. It is noted that pursuit of either of these options, and indeed the overall project itself, is predicated on establishing a robust business case to cabinet and the FCO to demonstrate the expected impact on both public finances and the wider economy.

In addition to the above, it is noted that Options 8A and 8B would call for the project revenues to support the capital cost of two or three piers plus the immediate cost of relocation of cargo to a new site.

At this stage, no detailed analysis of the cargo operations operating performance has been conducted, nor has any assessment of possible sites (and related environmental impact) for cargo operations relocation been undertaken. Accordingly, it is not possible to estimate the likely cost of cargo relocation. However, based on the PACI financial statements and the comparable capital cost of major infrastructure projects in the Cayman Islands, it is highly unlikely that the immediate relocation of cargo could be funded by the cruise berthing project.

Determining the location and potential cost as well as the financial feasibility of relocating the cargo operations is not part of the OBC scope and would require an in-depth review and potential restructuring of the cargo operations. Given the importance of the cargo operations for the economic and social wellbeing of Caymanians and the foreseeable lack of space at the current George Town site for cohabitating cruise and cargo operations over the long term, we believe it would be prudent for Government to undertake long term planning of the relocation of the cargo operations.

3) Construction and Phase Factors

Construction duration is yet another factor directly related to the scope of the works and number of berths.

Any of the options involving construction works on cruise piers would be a major undertaking with an impact on cargo operations, except in regards to the option requiring an immediate cargo port relocation. Continuous access to the cargo port throughout the construction period would need to be defined in the contractual documentation as one of the Project constraints.

As noted above, Options 8A and 8B call for the option of immediate relocation of cargo. No potential cargo relocation site has been identified at this stage, nor have any operating or financial reviews been conducted. As such, the relocation of cargo is likely to require a prolonged financial, operational and environmental evaluation process. Accordingly, under Options 8A and 8B, cargo relocation could reasonably be expected to add at least two years to the timeline for delivery of cruise berthing. Based on feedback from local stakeholders and cruise lines, such a delay would not be tenable.

Environmental aspects are only summarily analyzed at this stage, as a more detailed environmental analysis will be conducted for the shortlisted options at a later stage. Disturbance to the natural environment is assumed to increase with the scope of construction works, since the same mitigation measures are assumed for each option (i.e., no wider mitigation program for more expensive options).

Passenger volumes may be less affected by the construction works because of the existing alternative to use North or South terminals for tendering during the construction period. However, even this is likely to cause further disruption to already inadequate arrangements for bus and tour transport, which would need to be addressed as a priority for the cruise lines.

Overall, options having fewer negative impacts and/or for a shorter construction phase are ranked higher in this criteria category.

4) Operation Phase Factors

Recurring dredging, which is difficult to forecast with certainty, is one of the key monetary considerations during operations. Similarly to the construction phase, larger initial disturbance of the natural environment will lead to a more significant negative environmental impact during the operations as a result of continuous operations in a wider project area.

Conflict with the cargo operations is one of the key considerations because the PACI does not currently have a viable alternative elsewhere on the island. For the options where the cargo operations share the Project site with the passenger piers, in general, more expansive passenger pier options increase the conflict with cargo operations because of the limited space. In addition, not moving the cargo operations to a new site puts an effective cap on the cargo volumes because of the site constraints exacerbated by passenger piers.

5) Other Factors

A positive externality of relocating the cargo port factored in relevant options, as a result of downtown relief from overnight cargo operations.

Finally, a strategic parameter defined as “long-term solution” is evaluated for each option, i.e., to which extent an option allows for a flexible yet robust response to the long-term challengers such as ability to meet increased passenger or cargo traffic, or requirement for future works vs all works included in the primary Project scope.

Evaluation Results and Shortlisted Options

Appendix 1 to this note sets out our detailed evaluation. This analysis and the resulting shortlist of options can be summarized as follows:

Option 1: Status quo

Rejected. This option is unacceptable as it does not resolve any of the issues which Cayman’s cruise tourism industry is currently facing.

Option 2: Improved status quo

Retained. Although it does not provide Cayman with the berthing capacity which is widely desired, it is a low cost solution which does provide some level of improvement should all berthing solutions be judged unaffordable or otherwise undesirable.

Option 3: One pier

Rejected. A one pier solution would necessarily be designed so as to allow the eventual construction of a second pier. Accordingly, there is no practical difference in the short term between the “One Pier” option (Option 3) and the “Phased Two Piers” option (Option 4).

Option 4: Phased two piers

Retained. This is the best approach to provide at least a partial solution to Cayman’s berthing needs in the short term while allowing construction of a second pier in five years or later when justified by demand. This option is defined as designing and constructing one pier immediately in such a way as to ensure that a possible second pier could in the future be constructed without necessitating the need to move cargo operations. This does not preclude the eventual move of cargo following construction of a second pier.

Option 5: Phased two piers + future cargo relocation

Rejected. This option assumes that the construction of the second pier would be expected to necessitate the move of cargo, with the overall two pier design making full use of available space, including existing cargo space. Accordingly, there is a high risk that for development of the second pier in the future would be unaffordable.

Option 6: Two piers

Rejected. Given the current constraints placed on cargo operations because of cruise operations and considering the probability of growing cargo volumes in coming years, it would not be prudent to build two piers without foreseeing the possible need to relocate the cargo operations in the future.

Option 7: Two piers + future cargo relocation

Retained. If justified by projected volumes and judged affordable, immediately constructing two piers would meet most berthing demand in Cayman. Leaving the relocation of cargo to a future date allows construction of the cruise piers to go forward without the risk of delays caused by the need to identify the location or source of funding of the new cargo facilities.

Option 8A: Two piers + immediate cargo relocation

Rejected. This option is not currently affordable.

Option 8B: Phased three + immediate cargo relocation

Rejected. This option is not currently affordable.

In conclusion, the following options have been shortlisted for further analysis:

- Option 2, improved status quo;
- Option 4, phased two piers; and
- Option 7, two piers + future cargo relocation.