



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www. CityofSacramento.org

Staff Report

July 14, 2009

**Honorable Mayor and
Members of the City Council**

Title: Agreement: Passenger Vessel Agreement with Hornblower Cruise and Events, Inc. in Old Sacramento

Location/Council District: Old Sacramento Historic District, Council District 1

Recommendation: Adopt a Resolution; Approving and authorizing the City Manager to enter into an agreement with Hornblower Cruise and Events, Inc. (Hornblower) for the operation of a tour boat concession in Old Sacramento.

Contact: Natalie Birk, Historic District Manager, 808-8209; Liz Brenner, Administrative Officer, 808-1406; Barbara E. Bonebrake, Director, Convention Culture & Leisure Department, 808-8225

Presenter: Barbara E. Bonebrake, Director, Convention Culture & Leisure Department

Department: Convention, Culture and Leisure

Division: Old Sacramento Historic District

Organization No: 17001311

Description/Analysis

Issue: Staff recommends the City enter into a ten-year agreement with Hornblower Cruise and Events, Inc. ("Hornblower") for the use of the City's tour boat dock, waterfront boardwalk, and associated facilities such as the existing ticket booths, to provide, maintain, and operate a riverboat tour concession.

Policy Considerations: The requested actions is consistent with the 2003 Sacramento Riverfront Master Plan which calls for establishing the Sacramento riverfront as an active, vibrant urban district that provides a variety of uses and amenities for visitors and local residents.

Environmental Considerations: The proposed activity is not subject to environmental review under the California Environmental Quality Act (CEQA), California Code of Regulations, title 14, section 15378 because it is not a Project under CEQA.

Rationale for Recommendation: The Old Sacramento tours have been an important part of Old Sacramento's economic outlook. The operation historically contributes to the operating budget of Old Sacramento as well as the business community of the City.

The Old Sacramento riverboat program has been an important part of the visitor experience and proven to be a significant draw for the Sacramento waterfront. In 1987, after a competitive selection process, Channel Star Excursions was the chosen provider operating two boats, the Spirit of Sacramento and the Matthew McKinley. Knowing this agreement was to be terminated June 2007, the City issued another Request for Proposals in 2006 seeking submittals to continue a historic riverboat tour operation at the Old Sacramento dock. Three proposals were received and evaluated by a broad stakeholder interview team. Selected criteria focused on: the qualifications and experience as tour boat operators; character and design of the vessel(s); the financial viability of the proposer; the expected economic impact of each proposal; and the extent to which each proposal is compatible with the uniqueness of the area and the Old Sacramento Historic District.

In November 2006, the City entered into City Agreements 2006-1306 and 2006-1307 with Sacramento Yacht Charters ("SYC") to provide historic tour boat, water taxi, and amphibious trolley services from the Old Sacramento tour boat dock. SYC defaulted on the terms of both Agreements and demonstrated continued substandard performance. In December 2008, SYC filed a petition in bankruptcy. The City's ability to provide an interim operator or proceed with conducting a new Request for Proposals process to select a more qualified riverboat tour service was significantly delayed as a result of the automatic stay created upon SYC's bankruptcy filing. SYC effectively stopped operating in November 2008, leaving Old Sacramento with no service and no revenue stream.

In April 2009, after one and half years of both contracts operating in default, the SYC Agreements 2006-1306 and 2006-1307 were "deemed rejected" as a matter of law under the Bankruptcy Code. This resulted in the automatic termination of these agreements which permitted the City to select another provider of tour boat services in Old Sacramento. Due to the impending summer season and the fact that Hornblower, the second rated proposer from the 2006 contract process, was interested in providing this service to the City; City staff negotiated a seasonal contract with the intent of negotiating a long term agreement.

On May 19, 2009 staff recommended to Council that the City enter into a short-term agreement with Hornblower to ensure riverboat tours resume in Old Sacramento for the summer tourism season. Council adopted staff's recommendation and approved a six-month agreement with Hornblower. On the same date, competitive bidding for a long-term agreement for the operation of a tour boat concession from Old Sacramento was suspended as in the best interests of the City so that staff could negotiate a long-term agreement with Hornblower. (Resolution No. 2009-297). Council unanimously agreed to move forward, providing staff return to Council with options for both a short-term agreement and a long-term agreement.

Hornblower immediately mobilized in Old Sacramento, hiring and training staff, updating the ticket booth buildings, providing signage, brochures, media outreach, marketing opportunities and contacts with the Downtown Sacramento Partnership, Sacramento Convention and Visitors Bureau, Old Sacramento Business Association, merchants and museums in Old Sacramento. The "Capitol Hornblower" began offering narrative historic river tours, Thursday through Monday, 1:30 p.m. and 3:00 p.m. to the general public on June 5, 2009. The ticket booth operation is open daily, 10:00 a.m. to 4:00 p.m.

As requested by Council on May 19th, staff negotiated both a short term (3-year) and long term (10-year) agreement with Hornblower. The option for a 3-year agreement would significantly impact the ability for any operator to invest in this community, build a business, nearly from the ground up, book long term business and impact the revenue stream available to the City. Specifically, under a short-term agreement, rent paid to the City would be five percent of the gross receipts, but only if monthly gross receipts exceed \$200,000. Additionally, no moorage fees, no addition of a historical vessel and marketing efforts commensurate with a short term agreement. Hornblower has made it clear that they are not interested in a short term contract with the City because it is not economically feasible in that the business operation requires a significant capital investment, personnel, long term business marketing strategies, and client building. If the City Council wished to pursue a new RFP process, the RFP process would take approximately six months and additionally up to six months to negotiate a contract resulting in lost revenue and loss of service to the Sacramento community.

The City was successful in receiving three proposals during the 2006 selection process. One proposal was from SYC, another from Hornblower, and the last from a sole proprietor. Hornblower ranked very close to the operator that was awarded the contract. This process took nearly a year to issue a Request for Proposals and bring forth an agreement to City Council. The financial impact of a new proposal process would be detrimental to Old Sacramento.

The City has a viable proposer who has already made significant investments as a business and tourist attraction in Old Sacramento. For these reasons, staff recommends securing a ten-year contract, with two five-year mutual options with Hornblower Events and Cruises Inc. The terms of the proposed agreement are similar to previous Tour Boat / Charter boat agreements in Old Sacramento. Significant terms of the agreement include:

- 10 weekly, regularly scheduled tours
- Commencing November 1, 2009 the City will receive a \$24,000 annual moorage fee and 5% gross receipts to the City
- A \$20,000 marketing allowance first year; \$10,000 second year; Annual marketing plan reviewed by City for advertisement and marketing Hornblower River Tour Operations and Old Sacramento

- The operation of a minimum of one 300 passenger vessel. Additional vessels added as deemed appropriate with a historical vessel added by year six, or when gross receipts reach \$2.5 million annually, whichever event occurs sooner.
- Right to merchandise, market and sell memorabilia items
- Option to provide Water Taxi service. In the event Hornblower chooses not to operate a water taxi service, the City may engage a separate operator
- Exclusive single ticket tour operation between I Street and the Tower Bridge
- Option to propose expanding operations using the South Barge (with City Council approval)

The Old Sacramento Business Association is in support of this agreement.

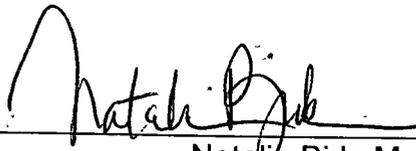
Since 1980, Hornblower has been providing dining, entertainment and cruise experiences that includes 29 yachts operating from six ports in California – San Francisco, Marina del Rey, Newport Beach and San Diego. As well as, in October 2007, Hornblower was selected by the National Park Service in a competitive bid process to exclusively provide service for Statue of Liberty and Ellis Island Ferry Operation. This operation has resulted in Hornblower carrying 17,000 passengers daily.

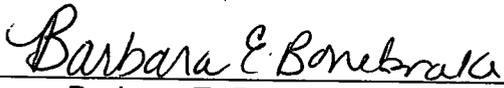
Other notable attributes of the Hornblower company are its operational experience, high-quality customer service and credible reputation in the marine hospitality industry. The depth within the Hornblower organization provides an extensive fleet of boats – a flexible commodity that can respond to customer demands and market driven opportunities. Its national presence as an innovative business, and the financial ability to expand services beyond river boat tours such as water taxis and overnight trips to the bay area, will have a long lasting economic impact in sustaining the City's waterfront and promenade

Financial Considerations: Hornblower will pay the City 5% of gross receipts from all activities under the agreement and moorage fees for the first five years of \$24,000 / per year. In years 6 – 10 the moorage fee increases to \$27,000 annually, and any exercised extensions moorage increased to \$30,000 and \$36,000 respectively. Prior years have ranged from \$1.0 million to \$2.4 million in gross receipts. This would result in a revenue stream to Old Sacramento of \$50,000 to \$100,000 in percentage rent in addition to the moorage fees.

The funds are deposited in the General Fund and are used to offset the City's Old Sacramento Historic District operating and maintenance costs. The Old Sacramento budget includes anticipated revenue of \$100,000 for fiscal year 2010.

Emerging Small Business Development (ESBD): Not applicable

Respectfully Submitted by: 
Natalie Birk, Manager
Old Sacramento Historic District

Approved by: 
Barbara E. Bonebrake, Director
Convention, Culture and Leisure Department

Recommendation Approved:

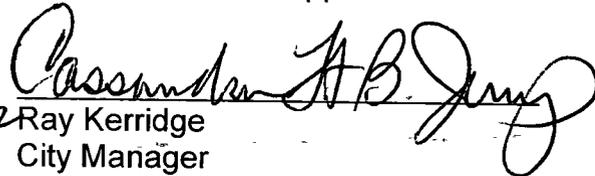

Ray Kerridge
City Manager

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Attachment 1

Background

In 1987, after a competitive selection process, Channel Star Excursions was the chosen provider operating two boats, the Spirit of Sacramento and the Matthew McKinley. Knowing this agreement was to be terminated June 2007, the City issued another Request for Proposals in March 2006 seeking submittals to continue a historic riverboat tour operation at the Old Sacramento dock. Three proposals were received and evaluated by a broad stakeholder interview team. Selected criteria focused on: the qualifications and experience as tour boat operators; character and design of the vessel(s); the financial viability of the proposer; the expected economic impact of each proposal; and the extent to which each proposal is compatible with the uniqueness of the area and the Old Sacramento Historic District.

In November 2006, the City entered into City Agreements 2006-1306 and 2006-1307 with Sacramento Yacht Charters ("SYC") to provide historic tour boat, water taxi, and amphibious trolley services from the Old Sacramento tour boat dock. SYC defaulted on the terms of both Agreements and demonstrated continued substandard performance. In December 2008, SYC filed a petition in bankruptcy. The City's ability to provide an interim operator or proceed with conducting a new Request for Proposals process to select a more qualified riverboat tour service was significantly delayed as a result of the automatic stay created upon SYC's bankruptcy filing.

In April 2009, Agreements 2006-1306 and 2006-1307 were "deemed rejected" as a matter of law under the Bankruptcy Code. This resulted in the automatic termination of these agreements which permitted the City to select another provider of tour boat services in Old Sacramento. However, due to the impending start of the summer season, the City did not have time to engage in competitive bidding in order to find the most responsible bidder to commence services this season.

On May 19, 2009 Staff recommended the City enter into a short-term agreement with Hornblower to ensure riverboat tours resume in Old Sacramento for the summer tourism season. On the same date, competitive bidding for a long-term agreement for the operation of a tour boat concession from Old Sacramento was suspended as in the best interests of the City so that staff could negotiate a long-term agreement with Hornblower. (Resolution No. 2009-297). Council unanimously agreed to move forward, providing staff return to Council after negotiating both a short-term agreement and a long-term agreement with Hornblower.

Hornblower immediately mobilized in Old Sacramento, hiring and training staff, updating the ticket booth buildings, providing signage, brochures, media outreach, marketing opportunities and contacts with the Downtown Sacramento Partnership, Sacramento Convention and Visitors Bureau (SCVB), Old Sacramento Business Association, merchants and museums in Old Sacramento. Specifically, this marketing campaign includes:

- Joined SCVB – Brochure distribution in the Old Sacramento Visitor Info Center, press releases from SCVB, participation in the Discover Gold program - a discount program offered to visitors only through hotel rooms, web listings, listing on sacramento365.com website, representation at conventions and trade shows, etc.
- Joined Old Sacramento Business Association – Name and location inclusion in new brochure being produced for July distribution, for brochure distribution at weekly Farmer's Market, collateral distribution at Free Concerts in the Park, press releases, and for couponing in the area.
- Joined Midtown Grid – Local marketing representation company for local businesses that manages Second Saturday, a free art-show downtown. Brochure distribution, web banner ads, placement on maps, mention in blogs.
- Created commission program for local hotels – Working with local hotel community to sell our tours through concierge, tour and front desks. Agents take \$2.00 deposit for each adult reservation, send guests to the ticket booth with their reservation acknowledgement where they pay the balance due to us.
- Extensive press & media coverage
- Couponing in Old Sacramento – “2 for 1” coupons are distributed around Old Sacramento in the mornings and later in the afternoons to encourage more walk-up business.
- Working with Railroad Museum on the Disney Christmas Carol Train Tour. National Disney promotion running from Los Angeles to New York, May-October, promoting their new Christmas Carol movie, premiering in November. Family oriented promotion powered by the Disney marketing / promotion machine. We will be distributing our brochure and “2 for 1” coupon at the Information booth, (booth is being run by the Railroad Museum and they are only inviting our collateral as an attraction) in exchange for our distributing their train schedule and coupon at our ticket booth.
- Working with CBS radio in Sacramento (five stations each with different formats) to do some trade for tickets and minimal cash at their Guac & Roll event and on their sports-talk station. Total cost approx \$5,000.
- Reviewing River Cats proposal for inclusion of couponing and information table at select home games and at three upcoming concerts at Raley Field. Involves sponsoring a section of the field, announcer mentions during games, scoreboard advertising, couponing in the cup holders in sponsored section and HOS info table on food service level.

The "Capitol Hornblower" began offering narrative historic river tours, Thursday through Monday, 1:30 p.m. and 3:00 p.m. to the general public on June 5, 2009. The ticket booth operation is open daily, 10:00 a.m. to 4:00 p.m. Hornblower also plans on bringing another vessel to Old Sacramento expanding services to include dinner, lunch and brunch cruises, sunset cruises and charters.

RESOLUTION NO. 2009-

Adopted by the Sacramento City Council

**PASSENGER VESSEL AGREEMENT WITH HORNBLOWER CRUISE AND EVENTS, INC.
FOR THE OPERATION OF A TOUR BOAT CONCESSION IN OLD SACRAMENTO**

BACKGROUND

- A. The 2003 Sacramento Riverfront Master Plan calls for establish the Sacramento riverfront as an active, vibrant urban district that provides a variety of uses and amenities for visitors and local residents.
- B. Staff recommends the City enter into a ten-year agreement with Hornblower Cruise and Events, Inc. for the use of the City's tour boat dock, waterfront boardwalk, and associated facilities such as the existing ticket booth, to provide, maintain, and operate a riverboat tour concession.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL
RESOLVES AS FOLLOWS:**

- Section 1. The Passenger Vessel Concession Agreement with Hornblower Cruises and Events, Inc. is approved and the City Manager is authorized to execute the Agreement and any amendments thereto.

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- Exhibit A Passenger Vessel Concession Agreement