

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 9A
Date of Meeting October 4, 2022

DATE: September 12, 2022

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial Officer & Chief Strategy Officer

Project Manager: Erin DeBroux, Sr. Real Estate Manager

SUBJECT: Second Reading – Terminal 10 Ray-Mont Logistics Seattle, Inc.

A. ACTION REQUESTED

Request Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to execute a new lease with Ray-Mont Logistics Seattle, Inc. at Terminal 10.

B. SYNOPSIS

In support of its greater strategic plan, the NWSA issued a Request for Proposals (RFP) in November 2020 to lease Terminal 10 to a single user/operator. The RFP was awarded to Ray-Mont Logistics (“Ray-Mont”) for its proposal to develop Terminal 10 into a **rail-dependent transloading facility** for export of primarily agricultural products. Terminal 10 is subject to site use restrictions, including prohibition of cargo moving equipment and vertical container stacking. The new lease with Ray-Mont proposes a two-phase use approach. Ray-Mont will initially utilize the site under the currently approved uses while concurrently seeking approval from the United States Environmental Protection Agency (USEPA) and any other relevant agencies to expand approved uses to include cargo moving equipment and vertical container stacking. Following approval from the USEPA, Ray-Mont will operate Terminal 10 as a containerized transloading terminal.

C. BACKGROUND

Terminal 10

Terminal 10 is a 13.19-acre site on the west side of Harbor Island, between 16th Avenue SW and the West Duwamish Waterway. It is rail access adjacent on the south side, but without water access although bounded on the west by the West Waterway of the Duwamish River. Out of the total 13.19 acres, 8.1 acres are available for leasing opportunities. The remainder of the site is under agreement with other users or undeveloped land along the shoreline. King County utilizes approximately 1.5 acres at the south end via an easement and Vigor Shipyards utilizes approximately 2.5 acres at the north end via a Parking Mitigation Agreement. Terminal 10's intended use is for an off-dock support yard for Terminal 18 and rail on Harbor Island, supporting marine cargo growth opportunities, such as transloading.

Since 2013, approximately 5 acres the total 8.1 acres of Terminal 10 have been leased to seven trucking companies via month-to-month lease agreements for drayage support services to the terminals. Truck and trailer parking was initiated and intended to remain a "filler use" until a customer was identified who would utilize the site in support of marine cargo growth opportunities.

Request for Proposals and Awardee

In support of the NWSA's ongoing marine cargo growth strategies, the NWSA issued an RFP to market Terminal 10 in November 2020, the intent of which was to explore uses that would support and grow marine-industrial business and cargo in support of the NWSA gateway. Upon closing of the RFP solicitation period, two submittals were received. Upon completion of the internal RFP review process, in February of 2021, Ray-Mont was awarded the RFP based upon the published selection criteria and entered into lease negotiations with the NWSA.

Ray-Mont is the largest containerized transloading terminal operator in Canada, and one of the largest freight forwarders of export marine containers in Canada. Ray-Mont's business supports the growth of exports of agricultural product, resins, forest products, and other emerging commodities. Ray-Mont has expansion projects to open terminals in the United States, including a project located on King County-owned property adjacent to Terminal 10, to which Ray-Mont secured a lease in 2020 including usage of **the rail running along the southern boundary of Terminal 10**. Having a long-term lease on T10 would allow Ray-Mont to improve its rail utilization and increase its throughput. Ray-Mont employs approximately 400 people across its network.

Ray-Mont's vision for Terminal 10 is to transform the site into a transloading terminal, for export of primarily agricultural products and plastic resins, resulting in increased volumes through the gateway and job growth opportunities. Ray-Mont will

combine the capacities of Terminal 10 and the adjacent King County property to optimize this parcel of Harbor Island. Of significance, is the existing rail spur, servicing both lots. Ray-Mont intends to combine the two locations to increase and maximize the usable square footage and potential to utilize the rail. Rail access is critical to their core business which is a hard-to-find attribute available at Terminal 10.

Following full build out of the two combined sites, Ray-Mont envisions agricultural products mostly from the United States Northern Great Plains region serving as the anchor cargo (85% of the total capacity), with dried distillers grain and legumes being the largest two categories of agricultural products. Plastic resins and forest products will comprise the remaining 15% capacity, with Ray-Mont adjusting over time to accept and handle emerging cargos as market conditions evolve. Over time, Ray-Mont forecasts bringing a diverse cargo origination to Terminal 10, including the Northern Great Plains, Pacific Northwest, Canada, Midwest and Gulf regions.

Site Use Restrictions

Terminal 10 is currently subject to site use restrictions due to previous contamination of the site. The Port of Seattle purchased the property from Lockheed Martin Corporation (“Lockheed”) in 1997. The property was included in the original federal Superfund/National Priorities Listing (“NPL”) of Harbor Island in 1983. Lockheed completed cleanup activities for the shipyard in the fall of 1995. Cleanup included excavating petroleum hot spot soil and treating it by thermal desorption, capping other soil contaminated above cleanup goals, and long-term monitoring of contaminant concentrations in the groundwater. USEPA deleted the Lockheed Shipyard soils in 1996 from the NPL of highly contaminated sites. In 2011, The Port of Seattle completed upland site improvements including replacement of the stormwater conveyance system to project the adjacent Lockheed cap area from recontamination, light pole installation, grading, and parking striping for cargo vehicles/containers.

Post-development requirements were documented in an Operations and Maintenance (O&M) Work Plan, which was approved by the USEPA. The O&M Work Plan describes the requirements for site use conditions and activities, including: (1) general site use and allowed operations, (2) stormwater treatment system monitoring and stormwater-related best management practices, (3) monitoring and maintenance of the existing riparian area, and (4) maintenance of the upland pavement cap integrity. The O&M Plan further specifies that certain uses are prohibited on the site due to the potential introduction of stormwater contaminants the current system is not designed to handle, including but not limited to:

- The use of cargo loading and handling equipment (no forklifts or cranes will be used at the Terminal 10 Site).

- Fueling of vehicles.
- Maintenance of cargo chassis and vehicles, including washing and hose-down, and storage of petroleum products and hazardous materials.
- Introduction of any structure with roofs, siding, or coated surfaces that could be potential sources of stormwater contaminates.

Due to the current site use restrictions in place, Ray-Mont proposals to utilize Terminal 10 in a two-phase approach.

Phase I: Utilize Terminal 10 for truck, chassis, and single container storage as is currently approved. During this period, Ray-Mont will not require use of the entire site and offer subleases to the current trucking company tenants for the remaining area of the site, being approximately 75% – 80%. Subleases will be guaranteed through October 2024 and will have a rental rate not to exceed the base per square foot rental rate Ray-Mont is subject to via this new lease.

During Phase I, Ray-Mont with the support of the NWSA and Port of Seattle, will work with the United States Environmental Protection Agency (“USEPA”) and any other applicable local, state and federal agencies (collectively “Approving Parties”) to expand the approved uses of the site to include use of cargo loading and handling equipment, vertical container stacking, transloading from rail cars, and receipt of rail cars if and when rail track is extended to the Premises.

Phase II: Following approval to expand site uses, Ray-Mont will initiate steps to begin utilizing the site for transloading activities, including cargo loading and handling equipment, vertical container stacking, transloading from rail cars, and receipt of rail cars if and when rail track is extended to the Premises.

Following commencement of Phase II, Ray-Mont will pay a Facility Charge in addition to the Base Rent. The Facility Charge will be a per container fee in accordance with Item 669.030 of The Northwest Seaport Alliance Terminals Tariff No. 300 (“Tariff 300”).

While it is anticipated expanded site uses will ultimately be approved, approval of new uses is not guaranteed. Should the Phase II uses not be approved, Ray-Mont may terminate the lease at its discretion or continue leasing the Premises under the Phase I uses until August 31, 2027.

Key Lease Terms

Lease Section	Description
Phase I Premises	Upon the Lease Commencement Date, approximately 6.1 acres of yard space with the ability to expand up to 8.1 acres should additional space become available

Phase II Premises	Commencing November 1, 2024, approximately 8.1 acres of yard space								
Phase I Uses	Truck and chassis trailer parking								
Phase II Uses	Phase I Uses plus use of cargo loading and handling equipment, vertical container stacking, transloading from rail cars, and receipt of rail cars if and when rail track is extended to the Premises								
Term	Initial 20-year term								
Phase I Term	Commencing upon the Commencement Date and ending upon earlier of: (1) October 31, 2024; or (2) approval to allow Phase II uses								
Phase II Term	Commences upon first day following receipt of written authorization to allow Phase II uses								
Options to Extend	Subject to commencement of Phase II and upon mutual approval of the parties, one (1) additional term of twenty (20) years and one (1) additional term of ten (10) years								
Base Rent	\$93,087.05 per month (\$.35 per square foot) to be increased at the then-current Base Rent upon expansion of Premises								
Escalation to Base Rent	Base Rent to be escalated annually based on increase in CPI, not to exceed 5% in any given year								
Market Rate Adjustment	At Lessor's option, Base Rent shall be subject to renegotiation at the end of the 60 th month and each 60 months thereafter. <ul style="list-style-type: none"> Purpose is to reset to the fair market value of the Premises based upon appraisals of comparable properties 								
Facility Charge	<p>Upon commencement of Phase II, Lessee shall pay a Facility Charge in addition to Base Rent</p> <ul style="list-style-type: none"> Lease Years 1 through 3: Annual flat Facility Charge of \$500,000 to be billed monthly Lease Years 4 to Lease End: Per container charge at the then-current Tariff rate Lessee guarantees a minimum annual Facility Charge equivalent to 25,000 Containers times the then current Tariff rate Fee for volumes exceeding 25,000 Containers will be discounted as shown below. <table border="1" data-bbox="560 1680 1416 1873"> <thead> <tr> <th>Discount</th> <th>Volume Range (Container)</th> </tr> </thead> <tbody> <tr> <td>No Discount</td> <td>0 to 25,000</td> </tr> <tr> <td>15%</td> <td>25,001 to 30,000</td> </tr> <tr> <td>25%</td> <td>30,001 to 35,000</td> </tr> </tbody> </table>	Discount	Volume Range (Container)	No Discount	0 to 25,000	15%	25,001 to 30,000	25%	30,001 to 35,000
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Security Deposit	Equivalent to 9 months Base Rent plus Washington State Leasehold Excise Tax								
Utilities & Taxes	Lessee responsible for all utilities and taxes.								
Alterations	Lessor is not responsible to make any alterations.								
Maintenance & Repair	Lessee responsible for all maintenance and repair.								
Insurance	<p>Commercial General Liability</p> <ul style="list-style-type: none"> • \$5 million per occurrence • \$10 million aggregate <p>Automobile Liability</p> <ul style="list-style-type: none"> • \$1 million per accident 								
Tenant Improvements	Completed at Lessee’s sole cost and expense, subject to prior review by Lessor.								
Assignment & Sublease	<p>No later than the Commencement Date, Lessee shall enter into subleases with the seven companies currently leasing portions of Terminal 10</p> <ul style="list-style-type: none"> • Subleases shall be in effect through October 31, 2024 • Rental rate shall not exceed the per square foot Base Rent of the Lease (\$.35 per square foot and escalated annually by CPI) 								
Termination, Major Capital Improvements	<p>Should Lessor terminate the lease due to a major capital improvement, Lessor shall reimburse to Lessee:</p> <ul style="list-style-type: none"> • Any remaining unamortized cost of Lessee’s capital costs (construction, design, purchase, permitting) of improvements affixed to the Premises within first 5 years of the Term, on a straight-lined amortization schedule over the remaining initial Term of Lease. <ul style="list-style-type: none"> ○ Excludes personal property, trade fixtures, business equipment • Parties to agree on a straight-lined amortization schedule to be incorporated into the Lease via amendment. 								

Environmental	<ul style="list-style-type: none">• Consent Decrees: Premises is subject to two Consent Decrees; Lessee shall not commit any act which is in violation of the Consent Decrees• Environmental Cap: Lessee shall maintain the Environmental Cap in compliance with the Consent Decrees and keep it in good condition and repair at its sole cost and expense
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Terminal 10 tenants

Approximately 5 acres of Terminal 10 are currently leased to seven trucking companies via month-to-month leases (“Terminal 10 Tenants”). Entering into a new lease with Ray-Mont will result in termination of these existing leases. Staff have worked extensively to identify a solution that will not cause displacement of the Terminal 10 Tenants, including working proactively with Ray-Mont to find a solution to accommodate these tenants for as long as possible. In good faith and partnership, Ray-Mont has agreed to sublease to the Terminal 10 Tenants through October 31, 2024, while retaining exclusive use of approximately 1.7 acres of Terminal 10 located along 16th Avenue SW and the rail along the southern boundary.

Should this new lease with Ray-Mont be approved by the Managing Members, NWSA will issue a sixty (60) day termination notice to the Terminal 10 Tenants, during which time Ray-Mont will enter into subleases at a pass-through rental rate with any tenants wishing to remain at Terminal 10. Should all Terminal 10 Tenants choose to remain at Terminal 10, each footprint will be reduced by approximately 33% to 35%. Subleases will remain in place through October 31, 2024, at which time the NWSA will transition the Terminal 10 Tenants to Terminal 25 South, and Ray-Mont will utilize Terminal 10 in its entirety.

D. FINANCIAL IMPLICATIONS

Source of Funds

There are no capital expenditures associated with this new lease.

Financial Impact

The initial monthly revenue is \$93,087.05 (\$1,117,044.60/year) with annual increases by CPI, and the option to increase to the current market rate, as applicable, every five years.

The estimated net present value improvement over the current leasing structure at Terminal 10 for the initial 20-year lease term is \$15,096,946. The proposed per square foot rate (\$.35 or \$182,952.00 per acre per year) is consistent with improved industrial yards within Seattle.

E. ENVIRONMENTAL IMPACTS / REVIEW

Prior to being purchased by the Port of Seattle in 1997, Terminal 10 was operated as a shipbuilding facility by Lockheed Shipbuilding Company from the 1930s to 1988. Such use resulted in site contamination, and among other agreements, Lockheed entered two Consent Decrees with the USEPA and a Restrictive Covenant. Ray-Mont has been provided copies of these documents and shall not commit any act, which if committed by NWSA, would constitute a violation of the Consent Decrees or the Restrictive Covenant as now or hereafter amended.

Ray-Mont will be responsible for obtaining all environmental permits and other approvals required for the Phase II uses.

F. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.
- Proposed Term Lease.

G. PREVIOUS ACTIONS OR BRIEFINGS

- First lease reading, September 7, 2022