

MANAGING MEMBERS
STAFF BRIEFING

DATE: January 29, 2019
TO: Managing Members
FROM: John Wolfe, NWSA CEO
SUBJECT: Overview Briefing: NWSA North Harbor Commercial Strategy, Marine Terminal Lease Authorizations and Terminal 5 Modernization Program Authorization

A. BRIEFING REQUESTED

This is a public overview briefing and discussion of the NWSA North Harbor Commercial Strategy, Marine Terminal Lease Authorizations and Terminal 5 Modernization Program Authorization.

The briefing reflects direction from the Managing Members during the November 13, 2018 NWSA public meeting where they approved a motion of the NW Seaport Alliance to prepare the new North Harbor International Container Lease, complete Terminal 5 Modernization Project Bid documents and prepare submission of a term lease agreement and a construction funding request at a 2019 first quarter meeting for Managing Member authorization.

The motion authorized the NWSA Chief Executive Officer to:

- 1) Prepare the North Harbor International Container Lease for Terminal 5 for Managing Member Review and Approval;
- 2) Prepare Terminal 5 Modernization Project Public Works Bid document for Managing Member Review and Approval and;
- 3) Submit complete document package for final Managing Member review and authorization.

A copy of the adopted motion is attached to this memo.

This briefing precedes the February 26, 2019 NWSA Managing Member Public Meeting where commissioners intend to act upon these authorizations.

B. SYNOPSIS

This is a public overview briefing and discussion of the NWSA North Harbor Commercial Strategy, Marine Terminal Lease Authorizations and Terminal 5 Modernization Program Authorization.

The overview briefing has five main components:

- I. **NWSA Marine Cargo Economic Impact Report of January 28, 2019**
Purpose: Overview of marine cargo activity and its benefits to the state/region

- II. **NWSA Strategic Business Plan – Purpose and Benefits**
Purpose: Quick refresh on origins of NWSA business plan and other market analysis to inform investment decisions
- III. **North Harbor Strategy Commercial Arrangement**
Purpose: Explain the main elements of the new commercial arrangement, how it supports the gateway strategy and its specific outcomes for the Seattle Harbor
- IV. **T-5 Modernization Program**
Purpose: Overview of entire T-5 Modernization Program, including main upgrades to wharf, berth, electrical; review key permit, operational and public benefits including shore power, rail quiet zone and stormwater treatment
- V. **Authorizations to Execute the Commercial Arrangement**
 - 1) Terminal 5 Long-term Lease Authorization
 - 2) Terminal 5 SSAT-Matson Lease Authorization
 - 3) Terminal 46 TTI Lease Termination Authorization
 - 4) Terminal 18 SSA Lease Amendment
 - 5) Terminal 5 Modernization Project Construction Authorization
 - 6) One-time Membership Interest Affirmation Authorization

Again, this briefing precedes the February 26, 2019 NWSA Managing Member Public Meeting where commissioners intend to act upon these authorizations.

C. BACKGROUND

Terminal 5 began operating as a container terminal in 1964. Since that time, the Port of Seattle invested in significant environmental cleanup and facility improvements to consolidate properties and create a 182-acre international container terminal, which was completed in 1997. Until July 2014, the site was leased and operated by Eagle Marine Services, a subsidiary of American President Lines.

Vessels calling at the Northwest Seaport Alliance and the Port of Seattle have grown in size from 4,800 TEUs in 1997 to 14,000 TEUs today with 21,000+ TEUs currently operating globally, and 23,000 TEUs on order. To stay relevant in the shipping industry and maintain the Alliance's competitive position and preserve jobs, dock and infrastructure upgrades are needed to modernize the terminal for handling current and future classes of container vessels.

The Terminal 5 project provides improvements necessary to serve newer, larger vessels. The improvements include: crane rail strengthening, berth deepening, slope stabilization, electrical supply/distribution upgrades, new fender system and structural rehabilitation of the dock. Constructing these improvements will meet lease conditions for phased terminal operations over the next 20 years.

D. FINANCIAL IMPLICATIONS

Addressed in North Harbor Strategy Commercial Arrangement

E. ATTACHMENTS TO THIS REQUEST

Motion adopted by NWSA Managing Members on November 13, 2018

Motion

A Motion of the Northwest Seaport Alliance (Alliance) Managing Members authorizing the Chief Executive Officer to prepare the new North Harbor International Container Lease, complete Terminal 5 Modernization Project Bid documents and prepare for submission of a term lease agreement and a construction funding request at a 2019 first quarter meeting for Managing Member authorization.

WHEREAS, the Port of Seattle ("POS") and Port of Tacoma ("POT"), (collectively, "Ports"), are public port districts, organized under provisions of the laws of the State of Washington, codified under Title 53 RCW; and

WHEREAS, the Ports have formed the Alliance to act as the exclusive operator and manager of Alliance cargo and terminal properties for the Ports. The purpose of the Alliance is to promote and assist economic development of the Managing Members' marine cargo operations with an emphasis on unified business retention and recruitment, coordinated enhancement of the value of marine cargo assets, improved intermodal rail service, improved freight capabilities, environmental stewardship, and the general promotion of maritime economic development and other related Port business activity.

WHEREAS, much of the NWSA's economic impact is crucial in areas far beyond the working waterfront. The NWSA's activities affect 443,000 jobs in the state, including Washington farmers and manufacturers who ship their products through the gateway. Marine cargo operations were connected to \$138.1 billion in total economic activity in 2013, accounting for approximately one-third of Washington state's gross domestic product.

WHEREAS, the Alliance will oversee such operations, capital investments, and investments with unified management as described in the Alliance Charter to (i) optimize the value of Marine Cargo properties; (ii) grow cargo volumes and protect market share for the benefit of the region and state; (iii) manage overall terminal capacity, through coordinated investment strategies; (iv) provide enhanced job prospects for the Managing Members' labor and business partners; and (v) achieve overall financial returns that will not only enable reinvestment but also ultimately provide additional, unencumbered financial returns for each Managing Member.

WHEREAS, the Managing Members are committed to shared core objectives of financially viable business models that support customer success, value the port-labor partnership, protect and increase regional jobs, benefit the citizens of Pierce and King counties, promote the Pacific Northwest corridor's role in US trade strategies and the greater North American economy, and ensure the ability of each Managing Member to reinvest in terminal assets and infrastructure.

WHEREAS, the Alliance upon inception adopted a Strategic Business Plan that, based on internal and independent, external expertise, directed the consolidation of international container cargo to terminal facilities that support the accelerating global deployment of Ultra-Large Container Ships (ULCSs). Terminal 5, in the North Harbor, and Husky Terminal, in the South Harbor, have been identified as strategic terminals to support this industry shift. Associated terminal and near-terminal infrastructure enhancement and investment is required to serve these vessels and to protect the associated economic benefit to the Puget Sound Gateway, Washington State and the United States.

WHEREAS, the establishment of the Alliance helped Washington state weather the economic impacts caused by the global consolidation of ocean carriers and other supply chain partners. In the past three years, the industry has moved from 20 ocean carriers to 12, including government-directed mergers, other acquisitions and the bankruptcy of Hanjin in late 2016. These changes resulted in a consolidation and realignment of global shipping alliances that launched world-wide on April 1, 2017.

WHEREAS, the gateway-wide management of and improvements to NWSA terminals has today better-matched evolving needs of our customers.

NOW, THEREFORE, be it resolved by the Managing Members of the Alliance:

The NWSA CEO is hereby authorized to:

- 1) Prepare the new North Harbor International Container Lease for Terminal 5 for Managing Member Review and Approval.

Staff will prepare the long-term lease for the resumption of international container activities and capital improvements at Terminal 5. The initial lease agreement will include a lease commitment for the Terminal 5 facility, phase 1. Staff will also draft leases and agreements as appropriate for alternate marine cargo and maritime activities for any facilities that will shift away from the international container line of business.

- 2) Prepare Terminal 5 Modernization Project Public Works Bid document for Managing Member Review and Approval.

Staff will prepare the T-5 Modernization Project for public works bid using final confirmation of project scope, as negotiated with the new lessee, and bring forward to the Managing Members a full project construction authorization in first quarter 2019 with a project completion date for the first phase of the project in 2021 and second phase of the project in 2023.

Submit a request for construction authorization that includes authorization to advertise and award a public works contract for construction of the T5 Modernization Project.

Based on October 4, 2016 Managing Member authorization and Port of Seattle project policy, staff will negotiate and enter into a Project Labor Agreement for construction of the Terminal 5 Modernization Project. This agreement will ensure labor harmony for the duration of the construction project allowing for timely completion of the work and subsequent occupancy by the tenant, thereby facilitating the prompt return of Terminal 5 to use as an active international marine cargo terminal.

- 3) Submit complete document package for final Managing Member review and authorization.

ADOPTED by the Managing Members of The Northwest Seaport Alliance at a special meeting held on the 13th day of November 2018, a majority of the Managing Members being present and voting on this motion and signed by its Co-Chairs and attested by its Secretary under the official seal of said Managing Members in authentication of its passage this thirteenth day of November 2018.

Courtney Gregoire, Co-Chair
The Northwest Seaport Alliance

Donald G. Meyer, Co-Chair
The Northwest Seaport Alliance

ATTEST:

Ryan Calkins, Co-Secretary
The Northwest Seaport Alliance

Donald C. Johnson, Co-Secretary
The Northwest Seaport Alliance

