

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	7B
Date of Meeting	August 4, 2020

DATE: July 27, 2020
TO: Managing Members
FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial & Strategy Officer

Project Managers: Mike Campagnaro, Director, Real Estate
Curt Stoner, Senior Manager, Real Estate
Blaine Burk, Senior Manager, Real Estate

SUBJECT: SSAT (Tacoma) West Sitcum Lease 2nd Amendment; Terminal 5 SSA Terminals, LLC Lease Termination Agreement (Short Term Lease – Matson); Terminal 5 Crane Sale and Removal of Matson’s Step in Rights for the short-term and long-term Terminal 5 Leases

A. ACTION REQUESTED

Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or his delegate to execute:

- The SSAT (Tacoma) (“SSAT”) West Sitcum Lease 2nd Amendment including the Truck Terminal Dock Demolition Project (Master Identification No. 101496.01) ; and
- Terminal 5 (“T-5”) Lease Termination Agreement with SSA Terminals, LLC (“SSA”) (short-term lease)
- Relinquish the NWSA’s use of six (6) cranes currently located at Terminal 5
- Removal of Matson’s Step in Rights for the short-term and long-term Terminal 5 leases

Requesting Port of Seattle Commission authorization for the Executive Director of the Port of Seattle or his delegate to execute:

- All documents related to the sale of six (6) cranes located at Terminal 5 to SSA Terminals, LLC

B. SYNOPSIS

Matson has decided to move their Hawaii Service from Terminal 5 to the West Sitcum Terminal. As part of the move: 1) The lease at West Sitcum needs to be amended, to expand the Premises by 27 acres including the Truck Terminal Dock Demolition Project (Master Identification No. 101496.01) in order to accommodate the Hawaii service. 2) The short-term Terminal 5 lease with SSA Terminals, LLC that accommodates Matson's current service at Terminal 5 needs to be terminated early on September 15, 2020. 3) NWSA needs to relinquish the use the six (6) cranes currently located at Terminal 5. 4) Matson's Step in Rights for the short-term and long-term Terminal 5 leases need to be removed; and 5) The six (6) cranes currently located at Terminal 5 should be sold to SSA.

C. BACKGROUND

1) 2nd Amendment of the West Sitcum lease. The NWSA and SSAT (Tacoma) have negotiated the following terms to be included in the 2nd Amendment to the Lease.

Premises: Increases the current Premises by 27 acres. Leasehold area increases from 95.5 acres to 122.5 acres. Total West Sitcum Terminal acreage will increase from 108 acres to 135 acres.

Term: August 15, 2020 – December 31, 2027. No change to the Lease six-year term extension option.

Rent: Effective September 18, 2020, based on the current \$6,052.91 blended per acre per month rate, monthly Lease payments increase from \$653,714.03 to \$817,142.53 due to the addition of the 27 acre expansion.

The approximately one month delay of Rent commencement has a value of approximately \$169,000.00 to compensate SSAT for required Premises alterations and transition costs.

Future Rent Escalation (for the entire leasehold area of 135 acres):

Date	Monthly Blended. Per Acre Rate	Yearly Blended Per Acre Rate
January 1, 2021 (5% increase)	\$ 6,356.00	\$ 76,272.00
January 1, 2022 (5% increase)	\$ 6,666.67	\$ 80,000.00
January 1, 2023 and annually thereafter	Increase by CPI	Increase by CPI

Security Deposit: Effective January 1, 2021, the Security Deposit will increase to \$10,627,244.71 representing 12 months' Rent, Preferential Use Fee and Leasehold Excise Tax.

Please note that delaying the requirement for the Lessee to increase the Security Deposit from the current \$7,925,971.00 to \$10,627,244.71 for four and one half months is an exception to current policy negotiated with Lessee to help them mitigate the financial cost of amending the Standby Letter of Credit twice over a four month period. The Security Deposit will increase based on the Future Rent Escalations outlined above.

Alterations & Improvements:

Lessor will remove the Transload Dock at Lessee cost. This project is to demolish the functionally obsolete Truck Transfer Dock (TTD) because it is a physical barrier that constrains yard operations and lease boundaries in the West Sitcum Terminal. With the TTD removed, two Port tenants (SSA Terminals and Matson) will reconfigure their lease areas for their mutual benefit. The project consists of demolishing and disposal of the 300-foot long reinforced concrete platform, the roof, 16 footings, electrical demolition and installing new electrical conduits for a mobile field shack. The footprint of the demolition limits will be repaved with hot mix asphalt to form a continuous paved industrial apron to support container freight operations.

Schedule

Advertise for Bid	September 10, 2020
Open Bids	October 1, 2020
Notice of Award	October 5, 2020
Substantial Completion	November 30, 2020
Final Completion	December 30, 2020

Project Cost Details

	This Request	Total Project Cost	Cost to Date	Remaining Cost
Design	\$ -	\$ 99,000	\$ -	\$ 99,000
Construction	\$ 221,000	\$ 221,000	\$ -	\$ 221,000
Total	\$ 221,000	\$ 320,000	\$ -	\$ 320,000

Lessee will reimburse Lessor for the costs of removing the Truck Transload Dock within 30 days of Lessor providing an invoice for the work.

Permitting: City of Tacoma Demolition Permit is being applied for. The City of Tacoma may require a site development permit. Puget Sound Clean Air Agency (PSCAA) requires an asbestos/ demolition notification for structures greater than 120 square feet.

Remediation: No remediation issues with the current design.

Stormwater: Appropriate best management practices (BMPs) will be required during construction.

Air Quality: Not Applicable.

Lessor will replace the wheel stops on the 27 acres at Lessor cost. Lessor will restripe the 27 acres for wheeled container yard operations at Lessor cost. Lessor will remove the temporary fencing and related ecology blocks along the perimeter of the 27 acres at Lessor cost. Total estimated cost of these Lessor-funded Alterations and Improvements is \$265,000.

Lessee will remove and replace the fencing associated with the Transload Dock at Lessee cost. Lessee will grind and pave the landing leg potholes in the northern area of the 27 acres at Lessee cost.

Lessor and Lessee will make best efforts to accomplish this work by August 24, 2020.

Utilities & Taxes: The language contained in the First Amendment dated December 19, 2018 regarding Lessor reimbursing Lessee for high mast lighting electricity associated with the 27 acre NWSA Yard Area is deleted effective August 15, 2020 due to this 27 acre area becoming part of Lessee's Premises.

Shorepower: Lessor reserves the right to install vessel shorepower infrastructure at Lessee's Preferential Use Area. Shorepower capable vessels calling at Lessee's terminal are required to connect to and use shorepower during the duration of the vessel call. Upon completion of such shorepower infrastructure installation, Lessee will provide Lessor with a quarterly report documenting shorepower usage of all shorepower capable vessels.

Environmental Requirements Exhibit: Exhibit B is replaced by Exhibit B-1. Changes from Exhibit B to Exhibit B-1 include correcting the environmental cap oversight from WA State Dept. of Ecology to the EPA, adding a 15 day SWPPP submittal requirement to the stormwater section, deleting overly prescriptive stormwater BMP language, adding language that Lessee will support our Clean Truck Program and adding The NWSA Greenhouse Gas Resolution Paragraph.

2) Termination of short-term Lease at Terminal 5. The second component of the Matson Hawaii relocation to West Sitcum Terminal is an early Termination of the short-term Terminal 5 Lease with SSA. The Lease Termination Agreement is to be signed in conjunction with SSAT's Second Amendment to expand their Premises at West Sitcum Terminal. The Termination Agreement moves up the termination date of SSA's lease at Terminal 5 from March 15, 2021 to September 15, 2020. In addition, SSA will be taking ownership of all six (6) cranes currently located at Terminal 5 from the Port of Seattle. Three (3) of the cranes will be relocated by SSA to West Sitcum Terminal for their own use. There is operational, scheduling, and oversight efficiency in SSA also handling the removal of the remaining three (3) cranes from Terminal 5 so as not to interfere with SSA's work at Terminal 5. As such, the remaining three (3) cranes will be dismantled and removed from Terminal 5 by SSA at NWSA's cost.

Premises: Terminal 5 Premises contains approximately 60 acres; containing 1,300 feet of berth.

Term: April 3, 2019 to September 15, 2020.

Cranes: There are currently six (6) Paceco cranes (61, 62, 63, 64, 66 and 68) located on the Premises owned by the Port of Seattle and all have been surplused. All 6 cranes need to be removed from the terminal prior to June 1, 2021 to make room for the T-5 Phase II redevelopment project. If the NWSA were to remove these cranes, the anticipated cost of removal is approximately \$1M per crane.

Because NWSA would otherwise have to pay for the cranes' removal, NWSA has agreed as part of the overall negotiation of this lease termination to pay for one half the cost of the relocation of 3 cranes (to the West Sitcum Terminal) capping at \$1 million and the removal costs of 3 cranes capping at \$2 million in total. This is half the cost that would be expected if the NWSA were to remove the cranes, and offsets the sale of the cranes for \$1. SSA will remove the cranes by December 31, 2020, and failure to do so may result in \$125,000.00 per month in liquidated damages.

Operational Cranes: Paceco cranes 61, 62 and 66 ("Operational Cranes") will be moved by Lessee to West Sitcum Terminal located in Tacoma, WA no later than September 15, 2020. The NWSA will contribute 50% of the actual relocation costs in an amount not to exceed \$1,000,000.00.

Decommissioned Cranes: Paceco cranes 63, 64 and 68 ("Decommissioned Cranes") will be removed and disposed of by SSA no later than December 31, 2020. The NWSA will reimburse SSA for the actual costs of removing the Decommissioned Cranes for an amount not to exceed \$2,000,000.00 for all three Decommissioned Cranes. Any scrap value related to the disposal of the Cranes will be deducted from the overall dismantling and removal costs.

Step in Rights: As part of the Termination Agreement, the parties will be acknowledging the cancellation/voiding of Matson's Step in Rights for the short-term lease and the long-term lease at Terminal 5. These Step in Rights were granted to Matson as part of the North Harbor Strategy and they gave Matson the opportunity to assume SSAT Seattle LLC's and/or SSA Terminal LLC's lease obligations in the event that either entity were to default their lease. Given that Matson's Hawaii business is being relocated to the South Harbor, these rights are no longer applicable.

3) Sale of Cranes to SSA. SSA benefits from buying all six cranes as they will repurpose three of them and remove the other three. Not only is there operational efficiency to this approach, SSA will also have oversight and scheduling control over the crane relocation and removal work. This will allow SSA to make sure that the cranes do not interfere with SSA's pending other work at Terminal 5 in support of the long-term Terminal 5 lease and to properly time the delivery of the relocated cranes. All 6 cranes will be sold to Lessee for \$1.00 and additional consideration as described elsewhere in the memo, including saving the removal cost of

approximately \$1 million per crane. The sale of the cranes will include all related spare parts in the Port's possession. If sales tax is owed as a result of the sale of the Cranes, the Lessor and Lessee will each be responsible for paying 50% of any sales tax.

D. FINANCIAL IMPLICATIONS

The project will be funded out of operating funds or cash on hand.

Financial Impact

Matson's move will result in increased revenue at West Sitcum and the transfer of some stormwater and utilities cost from the NWSA to SSA offset by the loss of rent revenue and the NWSA's assumption of stormwater and utilities costs at T-5. The net impact is a reduction in income of approximately \$100,000 in 2020, and an increase in income of approximately \$1,350,000 in 2021 compared to the current lease arrangement. Income is modeled to increase by \$2,100,000 in 2022 and 2023 due to the lease of the additional acres at West Sitcum and new lease rates in 2021 and 2022

The NWSA 2020 Budget identified \$6 million in expense in 2021 to remove the cranes at T5. Approval of this action will eliminate this expense in 2021 offset by \$3,360,000 million in unbudgeted expense in 2020 for the container LOB, and an additional \$350,000 to move the auto LOB from 27 acres at West Sitcum to acreage on the East Sitcum Terminal. The net savings in expenses for disposition of the T-5 cranes is approximately \$2,300,000 between 2020 and 2021.

The 2020 Forecast presented to Managing Members in June 2020 forecasted distributable income of \$72.3 million and Distributable cash of \$86.1 million. Assume all else is constant, these amounts will be reduced to \$68.3 million and Distributable cash of \$82.1 million.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative:** Do not agree to support Matson moving its Hawaii Service from Terminal 5 to the West Sitcum Terminal. This will prevent SSAT (Tacoma) and Matson from benefitting from the operational efficiencies derived from combining both their Hawaii and Alaska Services at the same marine terminal. This alternative would preclude the sale of the 6 cranes located at T-5 to SSA Terminals, LLC; The NWSA would then be required to remove all 6 cranes from T-5 prior to June 1, 2020 at an estimated cost of \$1M per crane. Additionally, it would preclude the reset of the lease rate under the current West Sitcum Lease Agreement.

- **Recommended Action:** 1) Authorize The Northwest Seaport Alliance Chief Executive Officer or their delegate to execute the SSAT (Tacoma) West Sitcum Lease 2nd Amendment including the Truck Terminal Dock Demolition Project (Master Identification No. 101496.01), the Terminal 5 Lease Termination Agreement, relinquish the NWSA's use of six (6) cranes located at Terminal 5 and the removal of Matson's Step in Rights for the short-term and long-term Terminal 5 leases. 2) Authorize the Chief Executive Officer of the Port of Seattle or their delegate to execute all documents related to such sale and disposal of six (6) cranes located at Terminal 5 to SSA Terminals, LLC.

F. ATTACHMENTS TO THIS REQUEST

- PowerPoint presentation.
- Draft SSAT (Tacoma) West Sitcum Lease 2nd Amendment
- Draft Terminal 5 SSA Terminals, LLC Termination Agreement

G. PREVIOUS ACTIONS OR BRIEFINGS

FMC Briefing July 2, 2020

Executive Authorization POT- 20200701.01 July 4, 2020

\$99,000



Item No.: 7B
Date of Meeting: August 4, 2020

West Sitcum Second Amendment and T-5 Lease Termination

Presenters: Curt Stoner, Sr. Real Estate Manager
Blaine Burk, Sr. Real Estate Manager

Action Requested

Requesting the Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or his delegate to execute:

1. The SSAT (Tacoma) West Sitcum Lease 2nd Amendment including the Truck Terminal Dock Demolition Project (Master Identification No. 101496.01).
2. Terminal 5 Lease Termination Agreement with SSA Terminals, LLC
3. Relinquish the NWSA's use of six (6) cranes currently located at Terminal 5
4. Removal of Matson's Step in Rights for the short-term and long-term Terminal 5 leases

Action Requested

Requesting the Port of Seattle Commission authorization for the Executive Director of the Port of Seattle or his delegate to execute:

All documents related to the sale of six (6) cranes located at Terminal 5 to SSA Terminals, LLC

Background

- Matson has decided to move their Hawaii Service from Terminal 5 to the West Sitcum Terminal
- Matson will benefit from operational efficiencies derived from combining both their Hawaii and Alaska Services at the same marine terminal
- To accommodate this move, SSAT (Tacoma) needs to expand their premises at West Sitcum, the short-term lease at Terminal 5 needs to be terminated early and the Port of Seattle owned cranes currently located at Terminal 5 need to be sold to SSA Terminals, LLC.

Key Elements of SSAT (Tacoma) West Sitcum Lease 2nd Amendment

Article	Proposed Terms
Premises	Increase the Leasehold Area by 27 acres, from 95.5 acres to 122.5 acres. Total West Sitcum Terminal acreage will increase from 108 acres to 135 acres.
Term	August 15, 2020 – December 31, 2027 (no change). No change to the Lease six year term extension option.
Rent	<p>Effective September 18, 2020, based on the current \$6,052.91 blended per acre per month rate, monthly Lease payments increase from \$653,714.03 to \$817,142.53 due to the addition of the 27 acre expansion.</p> <p>The approximately one month delay of Rent commencement has a value of approximately \$169,000.00 to compensate SSAT for required alterations and transition costs.</p>

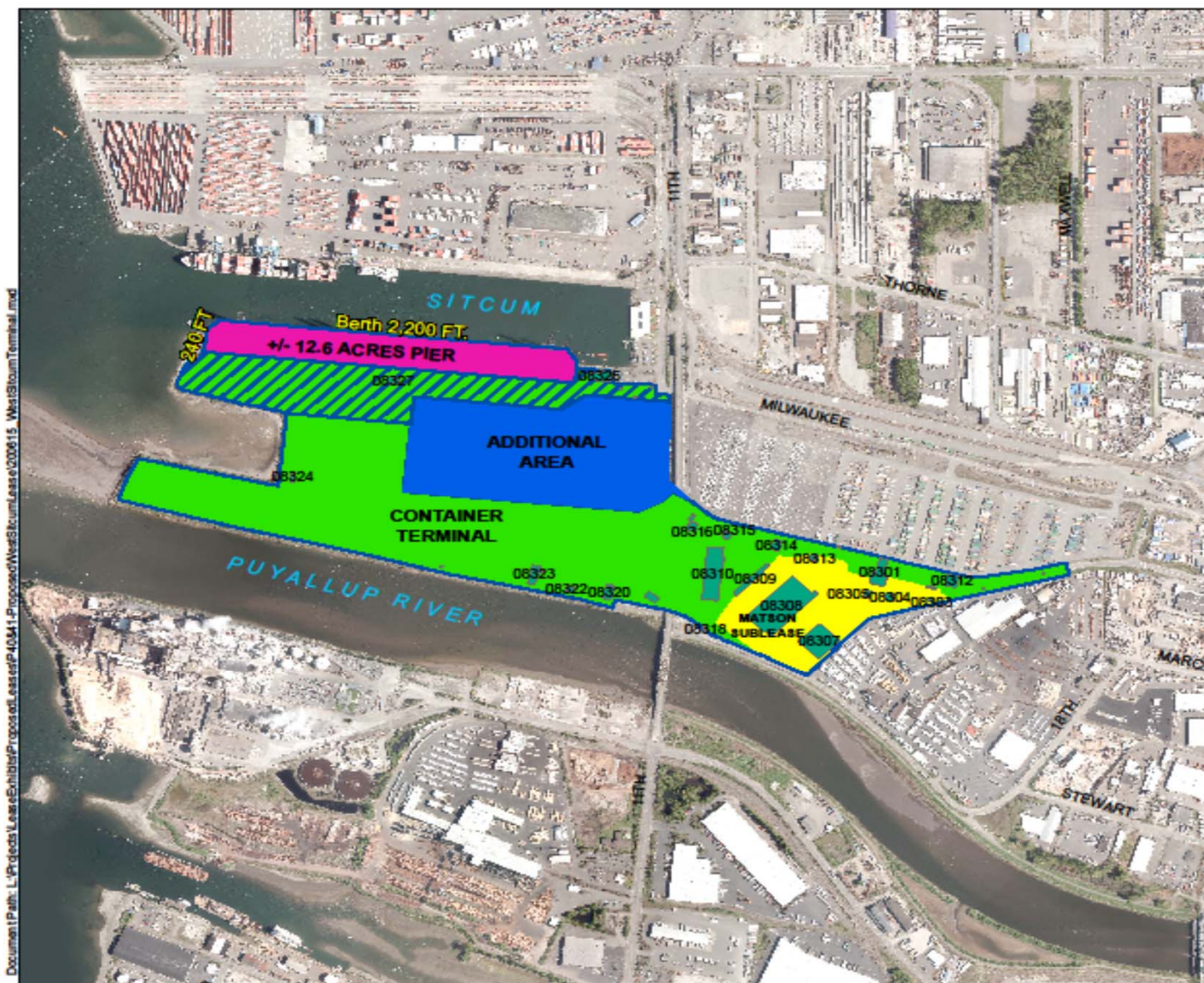


EXHIBIT A -1

WEST SITCUM TERMINAL
1002 MILWAUKEE WAY
TACOMA, WA 98421
PORT PARCEL: 40, 41

SHEET: 1 OF 1
PURPOSE: LEASE EXHIBIT
DATE: 7/7/2020
AUTHOR: Brian Archer

WEST SITCUM TERMINAL 135 ACRES

- 21 Buildings = 219,591 SF TOTAL
- NWSA Secondary Use Area
- SSA Boundary
- Additional Area = 27 Acres
- SSA Container Terminal = 82.4 Acres
- Preferential Use Pier = 12.6 Acres
- Matson Sublease Area = 13 Acres

The boundary calculations within this map are to be considered PRELIMINARY and subject to change following survey work performed and legal descriptions are applied by a licenced land surveyor.



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**THE NORTHWEST
A POU ALLIANCE**
PO Box 100000, Seattle, WA 98101 (206) 462-0000



Key Elements of SSAT (Tacoma) West Sitcum Lease 2nd Amendment

Article	Proposed Terms		
Future Monthly Rent Escalation (for the entire leasehold area of 135 acres)	Date	Monthly Acre Rate	Yearly Acre Rate
	January 1, 2021 5%	\$6,356	\$76,272.00
	January 1, 2022 5%	\$6,666.67	\$80,000.00
	January 1, 2023 and annually thereafter	Increase by CPI	Increase by CPI
Security Deposit	Effective January 1, 2021, the Security Deposit will increase to \$10,627,244.71 representing 12 months' Rent, Preferential Use Fee and Leasehold Excise Tax. Delaying the requirement for Lessee to increase the Security Deposit from the current \$7,925,971.00 to \$10,627,244.71 is an exception to current policy negotiated with Lessee to help them mitigate the financial cost of amending the Standby Letter of Credit twice over a four month period. The Security Deposit will increase based on the Future Rent Escalations outlined above.		

Key Elements of SSAT (Tacoma) West Sitcum Lease 2nd Amendment

Article	Proposed Terms
Alterations & Improvements (Lessor Responsibility)	Lessor will remove the Truck Transload Dock. Removal is requested by Lessee to increase cargo handling efficiency. The cost of removal is \$320,000. Lessee will reimburse Lessor for the costs of removing the Transload Dock. Lessor will replace the wheel stops on the 27 acres at Lessor cost. Lessor will restripe the 27 acres for wheeled container yard operations at Lessor cost. Lessor will remove the temporary fencing and related ecology blocks along the perimeter of the 27 acres at Lessor cost. Total estimated cost of these Lessor-funded Alterations and Improvements is \$265,000.
Alterations & Improvements (Lessee Responsibility)	Lessee will remove and replace the fencing associated with the Transload Dock at Lessee cost. Lessee will grind and pave the landing leg potholes in the northern area of the 27 acres at Lessee cost.

Truck Transload Dock



THE NORTHWEST
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Key Elements of SSAT (Tacoma) West Sitcum Lease 2nd Amendment

Article	Proposed Terms
Utilities & Taxes	The language contained in the First Amendment dated December 19, 2018 regarding Lessor reimbursing Lessee for high mast lighting electricity associated with the 27 acre NWSA Yard Area is deleted effective August 15, 2020 due this 27 acre area becomes part of Lessee's Premises.
Shorepower	Lessor reserves the right to install vessel shorepower infrastructure at Lessee's Preferential Use Area. Shorepower capable vessels calling at Lessee's terminal are required to connect to and use shorepower during the duration of the vessel call. Upon the completion of such shorepower infrastructure installation, Lessee will provide Lessor with a quarterly report documenting shorepower usage of all shorepower capable vessels.

Key Elements of SSAT (Tacoma) West Sitcum Lease 2nd Amendment

Article	Proposed Terms
Environmental Requirements Exhibit	Exhibit B is replaced by Exhibit B-1. Changes from Exhibit B to Exhibit B-1 include correcting the environmental cap oversight from WA State Dept. of Ecology to the EPA, adding a 15 day SWPPP submittal requirement to the stormwater section, deleting overly prescriptive stormwater BMP language, adding language that Lessee will support our Clean Truck Program and adding the NWSA Greenhouse Gas Resolution Paragraph.

Key Elements of Terminal 5 Termination Agreement with SSA, Terminals LLC.

Article	Proposed Terms
Premises	Terminal 5 Seattle, WA - 60 acres total – 44 acres Exclusive Use backlands + 10 acres 1300' lineal foot Preferential Use South Berth + 4.35 Acres Construction Mitigation Area + Admin Building.
Termination Date	September 15, 2020
Cranes	The 6 Cranes currently located at T-5 will be sold to SSA for \$1. SSA will be moving 3 of the cranes (Paceco 61,62,66) to West Sitcum for their use ("Operational Cranes"). The remaining 3 cranes (Paceco 63,64,68) will be dismantled by SSA ("Decommissioned Cranes"). If it is determined that sales tax is owed as a result of this the sale of the Cranes, the Lessor and Lessee will each be responsible for paying 50% of any sales tax.

Key Elements of Terminal 5 Termination Agreement with SSA, Terminals LLC.

Article	Proposed Terms
Cranes Cont.	<p>NWSA will reimburse SSA 50% of the relocation costs of moving the Operational Cranes to West Sitcum not to exceed \$1,000,000.00. The Operational Cranes will be relocated prior to 9/15/2020.</p> <p>NWSA will reimburse SSA for the actual costs of dismantling and removing the 3 Decommissioned Cranes, not to exceed \$2,000,000. The Decommissioned Cranes must be dismantled and disposed prior to December 31, 2020. Any scrap value related to the disposal of the Cranes will be deducted from the overall dismantling and removal costs.</p>
Step in Rights	<p>Currently, Matson has 'Step in Rights' for the SSA short-term and long-term leases at Terminal 5. As a part of this Termination agreement, the parties will be acknowledging the cancellation/voiding of Matson's Step in Rights for the short-term lease and the long-term lease at Terminal 5</p>

Financial Implications

- The project will be funded out of operating funds or cash on hand.
- Matson's move will result in increased revenue at West Sitcum and the transfer of some stormwater and utilities cost from the NWSA to SSA offset by the loss of rent revenue and the NWSA's assumption of stormwater and utilities costs at T5. The net impact is a reduction in income of approximately \$100,000 in 2020, and an increase in income of approximately \$1,350,000 in 2021 compared to the current lease arrangement. Income is modeled to increase by \$2,100,000 in 2022 and 2023 due to the lease of the additional acres at West Sitcum and new lease rates in 2021 and 2022
- The NWSA 2020 Budget identified \$6 million in expense in 2021 to remove the cranes at T5. Approval of this action will eliminate this expense in 2021 offset by \$3,360,000 million in unbudgeted expense in 2020 for the container LOB, and an additional \$350,000 to move the auto LOB from 27 acres at West Sitcum to acreage on the East Sitcum Terminal. The net savings in expenses for disposition of the T5 cranes is approximately \$2,300,000 between 2020 and 2021.

Financial Implications

- The 2020 Forecast presented to Managing Members in June 2020 forecasted distributable income of \$72.3 million and Distributable cash of \$86.1 million. Assume all else is constant, these amounts will be reduced to \$68.3 million and Distributable cash of \$82.1 million.



Alternatives Considered and Their Implications

- **No Action Alternative:** Do not agree to support Matson moving its Hawaii Service from Terminal 5 to the West Sitcum Terminal. This will prevent SSAT (Tacoma) and Matson from benefitting from the operational efficiencies derived from combining both their Hawaii and Alaska Services at the same marine terminal. This alternative would preclude the sale of the 6 cranes located at T-5 to SSA Terminals, LLC; NWSA would then be required to remove all 6 cranes from T-5 prior to June 1, 2021 at an estimated cost of \$1M per crane. Additionally, it would preclude the reset of the lease rate under the current West Sitcum Lease Agreement.

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