

**THE NORTHWEST SEAPORT ALLIANCE**  
**MEMORANDUM**

**MANAGING MEMBERS**  
**ACTION ITEM**

<b>Item No.</b>	9D
<b>Date of Meeting</b>	April 4, 2023

**DATE:** March 27, 2023

**TO:** Managing Members

**FROM:** John Wolfe, CEO

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

**Project Manager:** Andre Elmaleh, Sr. Manager, Business Development

**SUBJECT:** Gateway Automobile Business Agreements and Amendments in Support of Additional Auto Volume

**A. ACTION REQUESTED**

Request The Northwest Seaport Alliance (NWSA) Managing Members' and Port of Tacoma (Port) Commission authorization for the NWSA Chief Executive Officer and Port of Tacoma Executive Director or their delegates to enter into the following agreements or amendments to agreements, on behalf of their respective entities, all relating to the NWSA Gateway's automobile business:

- 1) NWSA MM VOTE: GLOVIS Second Amendment to Use Agreement.
- 2) NWSA MM VOTE: Ninth Amendment to the AWC Lease and Operating Agreement.
- 3) DUAL ACTION VOTE: Interlocal Agreement Between the Port of Tacoma and The Northwest Seaport Alliance Regarding Implementation of the GLOVIS 2020 Use Agreement.
- 4) DUAL ACTION VOTE: Interlocal Agreement Between the Port of Tacoma and the Northwest Seaport Alliance Regarding Use of Property At 1202 Port of Tacoma Road.
- 5) PORT OF TACOMA VOTE ONLY: First Amendment to the WWL Vehicle Services Americas, Inc. Lease and Operating Agreement between Port of Tacoma and WWL Vehicle Services Americas, Inc.

**B. SYNOPSIS**

Automobile business provides business diversity to both the NWSA and the Port of Tacoma, and economic benefit to the region through direct and indirect jobs. Staff

has worked with stakeholders to reach agreements or modifications to agreements to allow for the retention and growth of this business. If approved, the five agreements or amendments presented in this action item are expected to result in significant growth of the auto business in Tacoma. This growth stems from GLOVIS America, Inc.'s (GLOVIS) agreement to consolidate its KIA and Hyundai business and designate Tacoma as its exclusive port of call in the Pacific Northwest (PNW).

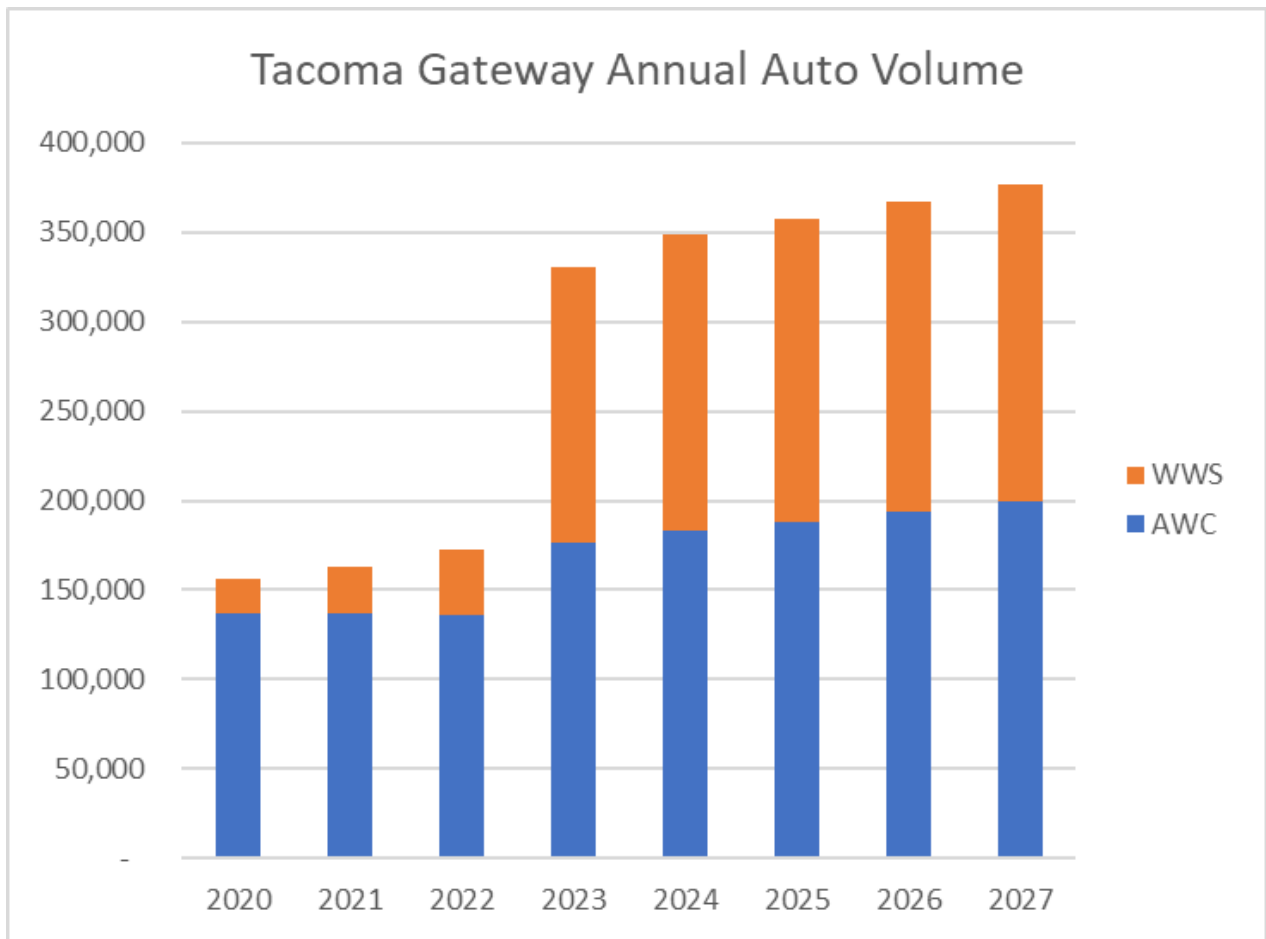
### **C. BACKGROUND**

The automobile business within the NWSA Gateway (Gateway) operates similarly to the container business. That is: 80% of the auto business moves inland by rail to serve the Midwest market. The remaining 20% serve the Alaska and PNW markets.

There are two separate automobile processors within the Gateway. The Port of Tacoma (and now NWSA) has contracted with Auto Warehousing Co. (AWC) over the past 50 years. AWC supports current Original Equipment Manufacturers (OEMs) which include KIA, Mazda, Mitsubishi and GM. The Port contracted with Wallenius Wilhelmsen Solutions (Lease is with WWL Vehicle Services Americas, Inc. (WWS)) in 2018 when the NWSA declined the cargo, and the Port leased a brand new 90-acre auto terminal to WWS. WWS supports the Nissan, Isuzu, Volvo, Hyundai and GM brands. Automobile processors (AWC and WWS) provide value-added services to OEMs in the form of receiving, inspecting, accessory installation as well as loading on to rail car or releasing to a trucking company for distribution. To support all this activity, each processor employs over 100 Full Time Equivalent (FTE) associates.

GLOVIS is the in-house logistics provider for Hyundai and KIA. When GLOVIS was formed in 2003 they sought to review and consolidate the different ports within each region used by each brand to leverage the efficiencies created with their combined volume. In the PNW, Hyundai used the Port of Portland, and KIA used the Port of Tacoma. Whereas GLOVIS kept each brand separate for many years, in 2018, they sought to consolidate the business from the two different ports into one. After lengthy discussions and working with GLOVIS and both processors, in March of 2022, GLOVIS informed the NWSA that Hyundai was to relocate to Tacoma, making Tacoma the exclusive port of call in the PNW. The following September the first vessel with Hyundais was delivered. Had this effort not been successful, GLOVIS would have removed KIA from Tacoma and consolidated at another port, thereby reducing auto volume by approximately 50%.

In parallel, with staff efforts to ensure GLOVIS consolidated in the Gateway, the NWSA seized the opportunity for an additional domestic rail business. Due to the new domestic rail business, a property previously used by the NWSA auto business became unavailable, requiring the NWSA to find alternative properties to support the auto business.



**D. OVERVIEW OF FIVE AGREEMENTS OR AMENDMENTS RELATED TO GLOVIS CONSOLIDATION**

To serve all of these customers, the NWSA and the Port, and to allow for overall business growth within the Gateway, staff is presenting five separate agreements, all of which are necessarily linked to the successful consolidation of the GLOVIS business in the Gateway. The five agreements are as follows:

**1) GLOVIS Second Amendment to Use Agreement (NWSA MM Vote):**

This is an incentive agreement related to the consolidation of the GLOVIS business within the Gateway. This incentive program is managed by the NWSA and applies to GLOVIS vehicles processed by both the Port and the NWSA.

**Key Terms:**

- Term: April 1, 2023 Through March 31, 2028
- Annual Payout: Up to \$2,300,000 (\$1,150,000 per brand)
- New Business: \$5.00/vehicle for new business is brought into the gateway

- Exclusivity: The NWSA will be the only gateway in the PNW for GLOVIS (Canadian vehicles excluded),
- Payback Provision: If GLOVIS relocates Hyundai or KIA from the gateway during the term of this Amendment, they will be required to pay back all funds paid out as a result of this Amendment.

**2) Ninth Amendment to the Auto Warehousing Co. Lease and Operating Agreement (NWSA MM Vote):**

In order to support the new domestic intermodal business, AWC relocated from Lot “M” to other properties. To accommodate this relocation, which was a first place of rest property used primarily by KIA, under this Ninth Amendment, the NWSA will pay for the reasonable shuttle and bunching charges associated with using upper Portac (AWC Lot #24) and 1202 Port of Tacoma Road<sup>1</sup>, as well as related security expenses. This Ninth Amendment updates shuttle rates necessary to reflect increased costs associated with that shuttle and bunching. NWSA has been paying these higher rates since December 2022 under CEO authority, and this action item ratifies the prior payment of the higher rates.

**3) Interlocal Agreement Between the Port of Tacoma and The Northwest Seaport Alliance Regarding Implementation of the GLOVIS 2020 Use Agreement (DUAL ACTION Vote: NWSA/Port):**

The GLOVIS Use Agreement (#1, above) provides for an incentive payment whereby NWSA is to pay GLOVIS for automobiles regardless of which terminal is used. This interlocal agreement requires the Port of Tacoma to reimburse the NWSA for all GLOVIS incentive payments made under the NWSA-GLOVIS agreement for autos at the Port of Tacoma/WWS facility up to a maximum of \$1,150,000.

Because there is no additional NWSA or Port of Tacoma property immediately available for WWS’s expanded space needs due to the anticipated increased Hyundai volume, this interlocal agreement also provides that Port of Tacoma will enter into both a short-term and a longer-term property solution for WWS. Through this interlocal agreement, Port of Tacoma agrees that it will reach a short-term agreement with WWS to pay \$13.00 per Hyundai as an offset for WWS’s unexpectedly higher expenses resulting from a short-term lease WWS entered into with the Puyallup Tribe of Indians (Tribe). Additionally, the Port of Tacoma agrees in this interlocal agreement to work with WWS for a longer-term lease through 2028 at the 2901 Taylor Way property (“Arkema Mound” site). Both of these commitments by the Port of Tacoma will be carried out through the

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<sup>1</sup> The 1202 Port of Tacoma Road property (Lot “G”) is not licensed to the NWSA, and is made available to NWSA for AWC’s use through the Interlocal Agreement for 1202 Port of Tacoma Road, discussed in this memo as agreement #4.

First Amendment to the WWS Vehicle Services Americas, Inc. Lease and Operating Agreement (#5, below).

**4) Interlocal Agreement Between the Port of Tacoma and The Northwest Seaport Alliance Regarding Use of Property at 1202 Port of Tacoma Road (DUAL ACTION Vote: NWSA/Port of Tacoma):**

This interlocal agreement allows the NWSA to use the 5.8-acre yard at 1202 Port of Tacoma Road (also known as the “Key Bank Yard” and referred to as “Lot G” in the AWC 9<sup>th</sup> Amendment, Agreement #2, above) indefinitely, with 30 days’ notice of termination. The NWSA will pay the Port of Tacoma \$14,000 per acre/month to be adjusted on an annual basis based on inflation. This property is suitable both as a first place of rest and for overflow. It is anticipated that this flexibility will lessen the need for longer and more expensive shuttles to Portac.

**5) First Amendment to Lease and Operating Agreement between Port of Tacoma and the WWL Vehicle Services Americas, Inc. (Port of Tacoma ONLY Vote)**

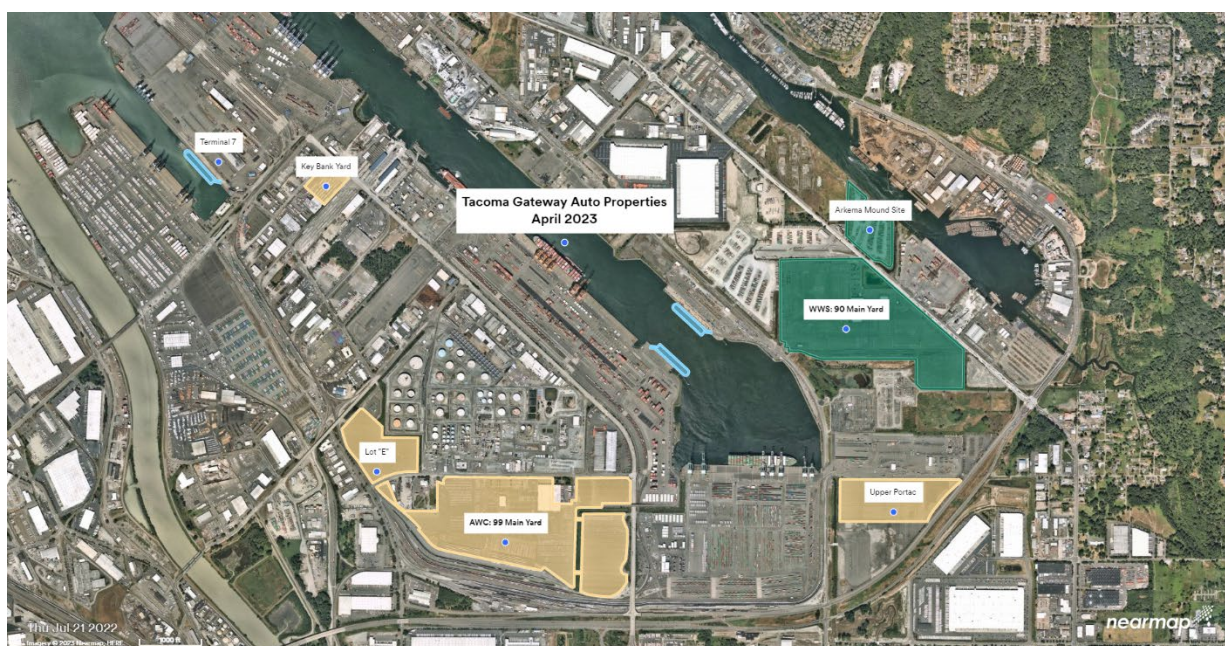
This amendment revises the lease between the Port of Tacoma and WWS and accomplishes the following:

- Recognizes Port of Tacoma’s actual build cost of the WWS auto Terminal (\$34M) and adjusts the annual Minimum Annual Guarantee (MAG) and Revenue Sharing thresholds accordingly.
- Extends WWS’s preferential use to 2901 Taylor Way (“Arkema Mound”), an adjacent property for which the Lease already grants WWS a right of first offer. This Additional Preferential Use area is to begin May 15, 2023 and last through December 31, 2028 unless GLOVIS gives notice that it is no longer going to use WWS’s services in Tacoma. The MAG and Revenue Sharing thresholds are also increased to compensate the Port of Tacoma for use of this property.
- Includes GM Korea Import Business in WWS’s Revenue Sharing provisions, expected to increase revenue for both the Port of Tacoma and for WWS.
- Provides an offset for WWS’s increased cost for the short- term Tribal property lease. As noted above, WWS needs additional space immediately and has leased property on a short-term basis at a significantly higher rate from the Tribe while awaiting access to the Port of Tacoma’s Arkema Mound. The Port is agreeing to offset some of Tribal lease expense by paying WWS \$13.00 for every Hyundai received beginning on March 8<sup>th</sup> through June 8<sup>th</sup> to match the three-month minimum associated with the Tribal lease. The value of the offset cannot exceed the value of the lease with the Tribe, and the offsets will terminate once replacement property such as the Arkema Mound site is delivered or if WWS terminates its lease with the Tribe.

### Gateway Auto Properties:

The map below shows the current and proposed properties to support both the NWSA and POT auto businesses. They include:

- Marine Terminal wharfs
  - T7
  - Blair
  - EB-1
- AWC facilities
  - Lot E – 19 acres
  - Main AWC Lot – 99 acres
  - Lower Portac – 26 acres
  - Lot “G” – 5.8 acres
- WWS facilities
  - Main WWS lot – 90 acres
  - Tribal lease property – 13 acres
  - Arkema Mound – 12 acres



**E. FINANCIAL IMPLICATIONS**

***Port of Tacoma Financial Impact***

The original financial model for the WWS terminal developed in 2018 provided an estimated return of 7.5% over 30 years. The increased volume of automobiles associated with these amendments, including the impact of the Arkema Mound and the increase of GM automobiles, increases the return to 10.5%. The table below provides the summary of financial performance for the Port.

Description	Original Model	Modified
Project Cost	\$35,000,000	\$34,047,312
NPV \$M	(\$1.8)	\$6.7
Debt Service Coverage	1.3	1.5
IRR	7.8%	10.5%
ROA	2.1%	3.6%
Payback Period	13	10

The table below measures the impact of these changes to the 2023 budget before and after these changes.

***POT - 2023 P&L***

	Budget	Budget, GM & Arkema Mound	Change
Budget Revenue	\$ 7,931,706	\$ 9,852,601	\$ 1,920,895
Revenue sharing	\$ (3,056,286)	\$ (3,869,967)	\$ (813,681)
Net budget revenue	\$ 4,875,420	\$ 5,982,634	\$ 1,107,214
Budget cash expenses	\$ (440,766)	\$ (733,266)	\$ (292,500)
Budget depreciation	\$ (3,755,020)	\$ (3,755,020)	\$ -
Total budget operating expenses	\$ (4,195,787)	\$ (4,488,287)	\$ (292,500)
<b>Budget Operating Income</b>	<b>\$ 679,633</b>	<b>\$ 1,494,347</b>	<b>\$ 814,714</b>

### ***NWSA Financial Impact***

The original financial model for the current AWC terminal was developed in 2004 and provided an estimated return of 12.6% over 30 years. The increased volume of automobiles associated with these amendments has a minor impact on the model given the time value of money and is shown in the table below:

Description	Original Model	Modified
Project Cost	\$40,004,000	\$60,960,043
NPV \$M	\$48.4	\$58.5
Debt Service Coverage	2.5	2.4
IRR	12.6%	13.1%
ROA	8.4%	8.1%
Payback Period	9	10

To measure the impact of these changes, the financial analysis looks at the 2023 income statement before and after these changes, including the impact of the new domestic intermodal rail business. The table below provides the summary of financial performance for the NWSA. Staff has modeled a very conservative scenario with approximately \$2.5M in drayage and bunching expenses. Historically, the highest amount spent on drayage and related expenses was \$0.4 million, but that was with first point of rest land on or very near the marine terminals.

	<b>2023</b>
Budget revenue	\$ 12,999,680
Revenue sharing	\$ (1,700,000)
Net budget revenue	\$ 11,299,680
	\$ -
Budget cash expenses	\$ (5,259,879)
Budget depreciation	\$ (732,480)
Total budget operating expenses	\$ (5,992,359)
	\$ -
<b>Budget Operating Income</b>	<b>\$ 5,307,321</b>
<i>Total net incremental expense</i>	<i>\$ (843,887)</i>
<b>Adjust Op. Income</b>	<b>\$ 4,463,434</b>
Budget BNSF Op. Income	\$ 2,693,457
<b>Auto LoB &amp; BNSF Op Income</b>	<b>\$ 7,156,891</b>



## **F. ATTACHMENTS TO THIS REQUEST**

- GLOVIS Second Amendment to Use Agreement
- Ninth Amendment to the AWC Lease and Operating Agreement
- Interlocal Agreement Between the Port of Tacoma and The Northwest Seaport Alliance Regarding Implementation of the GLOVIS 2020 Use Agreement
- Interlocal Agreement Between the Port of Tacoma and the Northwest Seaport Alliance Regarding Use of Property At 1202 Port of Tacoma Road
- First Amendment to the WWL Vehicle Services Americas, Inc. Lease and Operating Agreement between Port of Tacoma and the WWL Vehicle Services Americas, Inc.

## **G. PREVIOUS ACTIONS OR BRIEFINGS**

- 1) Second Amendment to GLOVIS Use Agreement
  - 4/6/2021: First Amendment to GLOVIS Use Agreement
  - 7/2/2020: GLOVIS Use Agreement
  - 7/8/2016: Second Amendment to GLOVIS Use Agreement
  - 3/23/2015: Third GLOVIS Use Agreement
  - 7/13/2011: Second GLOVIS Use Agreement
  - 10/13/2005: First GLOVIS Use Agreement
- 2) Ninth Amendment to AWC Lease and Operating Agreement
  - 7/24/2020: Eighth Amendment to LOA
  - 1/14/2020: Seventh Amendment to LOA
  - 12/19/2019: Sixth Amendment to LOA
  - 1/2/2018: Fifth Amendment to LOA
  - 11/3/2016: Fourth Amendment to LOA
  - 12/18/2014: Third Amendment to LOA
  - 7/7/2011: Second Amendment to LOA
  - 5/5/2011: First Amendment to LOA
  - 11/21/2002: Authorization of the Auto Warehousing Co. Lease and Operating Agreement.
- 3) First Amendment to WWL Vehicle Services America, Inc. Lease and Operating Agreement
  - 2/6/2018: Authorization of the WWL Vehicle Services Americas, Inc. Lease and Operating Agreement