

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.
Date of Meeting

5B
July 2, 2020

DATE: July 1, 2020

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial & Strategy Officer

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

SUBJECT: 2020 GLOVIS Use Agreement
Auto Warehousing Co. Eighth Amendment to Lease and Operating Agreement

A. ACTION REQUESTED

Action #1) Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to enter into a five-year Use Agreement with GLOVIS America (GLOVIS).

Action #2) Request Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to enter into the Eighth Amendment to the Auto Warehousing Co. (AWC) Lease and Operating Agreement.

B. SYNOPSIS

At the end of 2019, the GLOVIS Use Agreement, which had been in place since 2015, expired. Correspondingly, the Third Amendment to the Auto Warehousing Co. Lease and Operating Agreement also expired. This Third Amendment contains provisions for additional property and service of storage billing necessary to service GLOVIS.

In January 2020, to maintain business continuity, the Managing Members authorized a month-to-month extension of the AWC Agreement to accommodate the GLOVIS business and directed staff to secure a long-term agreement, hopefully within six months.

Meanwhile, staff has worked with GLOVIS on a new five-year agreement which offers the same revenue sharing provision as the previous agreement.

Separate, but related in the Eighth Amendment to the Lease and Operating Agreement with AWC, staff proposed a new incentive program for all customers using AWC's facility based on volume thresholds. It provides for another 18 acres of property, property enhancements, and staffing expense to allow GLOVIS a more efficient operation. All other terms remain the same.

C. BACKGROUND

GLOVIS

KIA Motors America began importing vehicles through the NWSA in 1995 at the very beginning of their entry into the US market. In 1998, Hyundai Motors took a controlling interest in KIA Motors. Together in 2003, they formed a subsidiary named GLOVIS to handle all logistics necessary to move vehicles from factories to dealerships worldwide.

GLOVIS America (GLOVIS) is responsible for receipt, processing and distribution of KIA and Hyundai vehicles throughout the US. This includes port selection as well as vehicle processor selection. With every agreement renewal, GLOVIS performs a study to ensure their current selections for both port and processor are offering the most ideal space, processing ability and efficiency available.

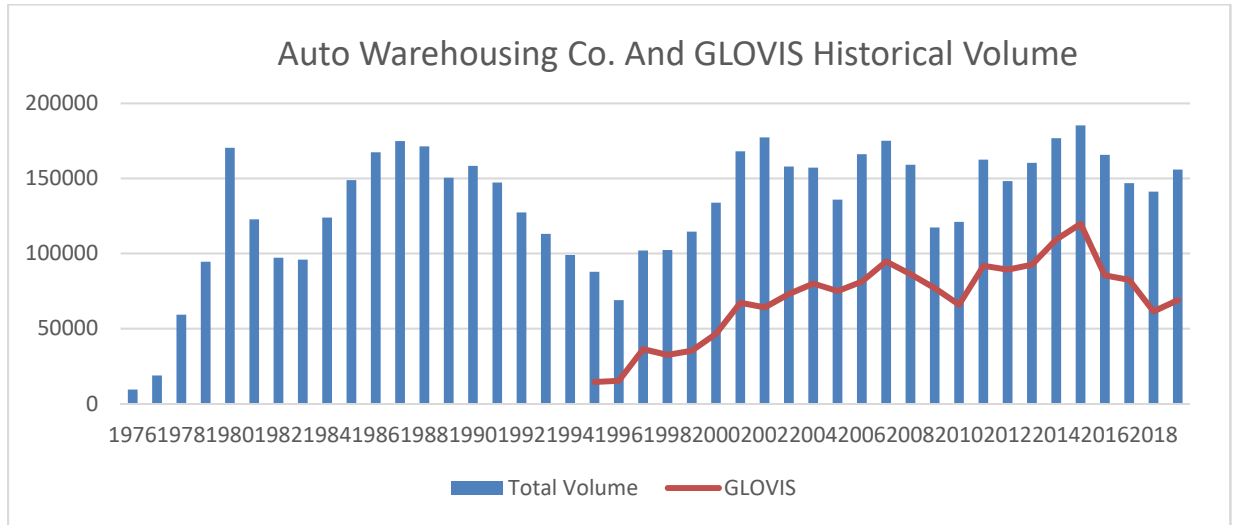
Staff has been in negotiation with GLOVIS since October 2018. Due to changes in leadership within GLOVIS, the negotiations were stalled. With the direction of the Managing Members, staff has worked diligently to advance finalization of a new long-term agreement.

AWC

AWC began operations at Pier 91 in the late 1960s. They moved to Tacoma in 1976. Through March 31, 2020, AWC has handled more than 5.8 million vehicles through the NWSA.

Tacoma is the headquarters for AWC, which has grown to be the largest automobile processor in North America. Starting with one port in 1976, under the leadership of Steve Seher, the company has grown to over 20 locations in the US and Canada.

AWC directly employs approximately 180 full-time equivalent personnel for their Tacoma operation. In 2019, 129 auto vessels called on the Marshall Ave Auto Facility creating over 4,900 longshoremen shifts which equals to about 19 FTE positions. Additionally, this facility creates a significant number of ancillary jobs in both rail and trucking.



Current AWC customers in Tacoma include GLOVIS America (KIA), Mitsubishi, Mazda, GM, and Tesla.

Since that time, AWC and the Port of Tacoma/NWSA have entered into a number of Lease and Operating Agreements (LOAs).

Current Lease and Operating Agreement History:

- Initial term: Twelve years
- Renewal options (AWC's discretion):
 - First renewal term: Five years, 2016-2020
 - Second renewal term: Three years, 2021-2023
 - Third renewal term: Five years, 2024-2028
- Renewal options (mutual discretion):
 - Fourth renewal term: Five years, 2029-2033
 - Fifth renewal term: Five years, 2034-2038

The current LOA provides 144 acres of storage and processing property along with three acres of leased building space for the purpose of receiving, processing, and shipping finished vehicles. **AWC does not lease property from the NWSA, with the exception of the buildings.** This means with respect to the property assigned to AWC, the NWSA acts as the terminal operator and assesses and collects all relevant tariff fees directly from the auto manufacturers and ocean carriers. This arrangement offers flexibility allowing the NWSA to use the property assigned to AWC when it is not in use.

In the Third Amendment to the AWC LOA, the NWSA agreed to provide additional property to retain the GLOVIS business bringing AWC’s land inventory from 144 to approximately 165 acres on the condition that GLOVIS remains a customer of the NWSA/AWC. Prior to the Third Amendment, the Port had been responsible for a portion of GLOVIS’s overflow shuttle costs as a result of relocating it from Lot “F” and the Milwaukee auto yard to allow for other cargo business.

The auto yard at the West Sitcum Terminal will need to be relocated to the East Sitcum Terminal by the end of the 3rd quarter of 2020 due to the Matson Hawaii business relocating from Seattle to Tacoma. Staff estimates the cost for pavement repairs, striping and fencing purchase/installation is approximately \$350,000. As such, staff will be seeking approval at a future meeting from the Managing Members in the amount of \$350,000 to cover the cost of relocating the auto yard.

Proposed 2020 GLOVIS Use Agreement

Article	Agreement Term
Term	5 Years: Beginning July 1, 2020 through June 30, 2025
GLOVIS Revenue Sharing Program	The NWSA will share in revenue through the following structure: <ul style="list-style-type: none"> • Minimum Volume: 60,000 Units Per Year • 60,000 units - 89,999 units: \$200,000 per year • 90,000 units or more: \$300,000 per year • Signing Incentive: If GLOVIS signs within 5 days of Managing Member Approval, then the volume for the first 6 months of 2020 (January 1, 2020 through June 30, 2020) will apply to contract year 2020 (July 1, 2020 - June 30, 2021).
Conditions for GLOVIS Revenue Sharing Program	<ul style="list-style-type: none"> • The NWSA must be the exclusive port of call for the Puget Sound • GLOVIS must use AWC as their Processor • GLOVIS will refund NWSA any and all revenue sharing payments received should they leave the NWSA prior to the expiration of this agreement. • NWSA has the right to terminate the Revenue Sharing Agreement in any contract year should GLOVIS’s volume fall below 60,000 units. • Total amount for the Revenue Sharing Program payments shall not exceed \$1,500,000 during the term of the agreement.

Proposed Key Terms in the Eighth Amendment to the AWC Lease and Operating Agreement

Article	Lease Term
Term	5 years 4 months - starting July 1, 2020 through October 31, 2025
Premises	<ul style="list-style-type: none"> • Base acreage covering all other auto customers – 144 acres; KIA acreage included in 7th amendment – 21 acres • Additional KIA acreage proposed in the 8th amendment – 18 acres • TOTAL ACREAGE for all other auto customers and KIA retention: 183 acres <i>See the attached Map</i>
Revenue Sharing Program	<p>Each contract year when AWC’s total volume has met or exceeds 135,000 units; Revenue Sharing will be issued to the Auto Manufacturers directly based upon their share of the volume.</p> <p>Revenue Sharing Program:</p> <ul style="list-style-type: none"> • 135,000 units- 149,999 units: \$50,000 • 150,000 units - 164,999 units: \$100,000 • For each 15,000 unit incremental increase in volume beyond 164,999 units, the revenue sharing will increase by \$100,000.
Conditions for Revenue Sharing Program	<ul style="list-style-type: none"> • The NWSA will be the exclusive PNW port for the Auto Manufacturers. • Manufacturers must sign a Participation Agreement. • Once a Manufacturer has signed the Participation Agreement they must remain with the AWC facility through the end of the Amendment or pay back any revenue sharing paid out. • The Revenue Sharing Program will be discontinued should KIA leave the NWSA gateway. • The Revenue Sharing program DOES NOT apply to any Wallenius Wilhelmsen customers.
Lease and Operating Agreement Renewal Periods	<ul style="list-style-type: none"> • <i>In the prior agreement: AWC has two remaining Renewal Periods to be exercised at its sole discretion. The next (second) renewal period is 3 years long, while the third is 5 years.</i> • Proposed: To align with the timing of the GLOVIS USE AGREEMENT, the proposed 8th Amendment will switch the renewal periods. • After these two renewal periods expire (October 31, 2028), there are two more 5-year renewal periods at mutual discretion.
Interest Charges	<ul style="list-style-type: none"> • This agreement will extend the grace period from 30 days to 60 days.
Release of vehicles stored on ILWU jurisdictional areas	<ul style="list-style-type: none"> • The NWSA will supply and fund ONE Longshore Clerk per yard/shift to release vehicles that are stored on ILWU jurisdictional areas.
Minimum Wharfage Guarantee	<ul style="list-style-type: none"> • <i>In the prior agreement: AWC must guarantee 100,000 units (imports/exports) annually. If AWC exceeds 100,000 units in any year, the overage goes into a “bank” which can be used to make up for further annual shortfall(s).</i> • Proposed: If any AWC customer relocates to the WWS auto terminal, the volume of that customer would continue to be counted towards the AWC “bank.”
Relocation	<ul style="list-style-type: none"> • The NWSA reserves the right to relocate AWC from any properties in use EXCEPT the main yard. Any resolution to help offset the loss of efficiency resulting from the relocation will be mutually discussed and agreed upon. • Staff will be requesting \$350,000 from the managing members to prepare the East Sitcum Terminal for Automobiles as the West Sitcum Terminal is planned for another use.

Increase the property assigned from the current 165 acres to approximately 183
(please see the map)



- **Map Legend:**
 - Blue: AWC Base Acres, (Total 144 Acres)
 - Orange: GLOVIS/KIA, (Incremental: 39 Acres, Total 183 Acres)

Examples of AWC revenue sharing:

Example # 1			
Manufacturer	AWC Contract Year Volume	% of Volume	Revenue Sharing Amount
Brand A	35,000	25.0%	\$ 12,500
Brand B	20,000	14.3%	\$ 7,143
Brand C	55,000	39.3%	\$ 19,643
Brand D	30,000	21.4%	\$ 10,714
Total:	140,000	100%	\$ 50,000

Example #2			
Manufacturer	AWC Contract Year Volume	% of Volume	Revenue Sharing Amount
Brand A	52,000	29%	\$ 73,446
Brand B	40,000	23%	\$ 56,497
Brand C	65,000	37%	\$ 91,808
Brand D	20,000	11%	\$ 28,249
Total:	177,000	100%	\$ 250,000

C. FINANCIAL IMPLICATIONS

The 2020 forecast includes revenue of \$6.7 million from the NWSA auto line of business that produces income of approximately \$4.7 million before depreciation. The GLOVIS business accounts for a significant portion of this income.

If GLOVIS leaves the NWSA, some portions of the acreage to be used by GLOVIS could be leased to other tenants. (Some acreages used by GLOVIS are on terminal and not easily leasable to anyone except the neighboring terminal tenant who does not want the additional acres). Analysis indicates that the NWSA produces on average \$960,000 per year more income by retaining GLOVIS assuming 70% occupancy on land which would become available if GLOVIS left the gateway.

D. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **Alternative - GLOVIS (KIA) leaves the NWSA:**
 - The AWC Agreement will revert to the original 144 acres of property provided.
 - Volumes will drop by a minimum of 45%, with a corresponding loss of approximately 80 jobs.

- Whereas the vacated land can be utilized for other business purposes it will offer less of a return.

- **Recommended Action:**

- The Managing Members authorize CEO or delegate to enter into the following:
 - GLOVIS Use Agreement
 - Auto Warehousing Co. Eighth Amendment to Lease and Operating Agreement

E. ENVIRONMENTAL IMPACT

Permitting: No Environmental Permits are required for this site use. Any site improvements proposed by AWC for the additional property (East Sitcum Terminal/EST) which would require a Shoreline Substantial Development Permit would be covered under the Port of Tacoma's Programmatic Permit.

Remediation: EST is located on the Milwaukee Fill Confined Disposal Facility environmental cap. AWC's proposed site use is consistent with the Environmental Covenant attached to that property. The Port of Tacoma will provide the relevant environmental documents to AWC.

Stormwater: No stormwater permits are required for this site use. All operators using Port property are subject to the Tariff 300 Item 136.700 which lists mandatory stormwater best management practices for auto parking. The area at the East Sitcum terminal is not covered by an ISGP. AWC will also need to verify a site mobile fueling is active if they choose to fuel longshore transit vans on the terminal.

Air Quality: This agreement would change EST use from shipping container storage to auto storage, which would not likely result in a substantial increase in air emissions.

F. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation

G. PREVIOUS ACTIONS OR BRIEFINGS

- a. GLOVIS America Agreements:
 - i. July 8, 2016, Second Amendment to GLOVIS Use Agreement
 - ii. April 8, 2016, First Amendment to GLOVIS Use Agreement
 - iii. March 23 2015, Third GLOVIS Use Agreement
 - iv. July 13, 2011, Second GLOVIS Use Agreement

- v. October 13, 2005: Initial GLOVIS Use Agreement

- b. Auto Warehousing Co. Agreements
 - i. January 14, 2020; AWC Seventh Amendment
 - ii. December 19, 2019: AWC Sixth Amendment
 - iii. December 15, 2017: AWC Fifth Amendment
 - iv. November 3, 2016: AWC Fourth Amendment
 - v. December 18, 2014: AWC Third Amendment
 - vi. July 8, 2011: AWC Second Amendment
 - vii. June 17, 2011: AWC First Amendment
 - viii. December 5, 2002: AWC Lease and Operating Agreement



**THE NORTHWEST
SEAPORT ALLIANCE**
Gateway to Solutions

Item No.: 5B
Date of Meeting: July 2, 2020

GLOVIS USE Agreement Auto Warehousing Co. Lease and Operating Agreement Eighth Amendment

Presenter: Andre Elmaleh
Sr. Manager, Business Development

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Background

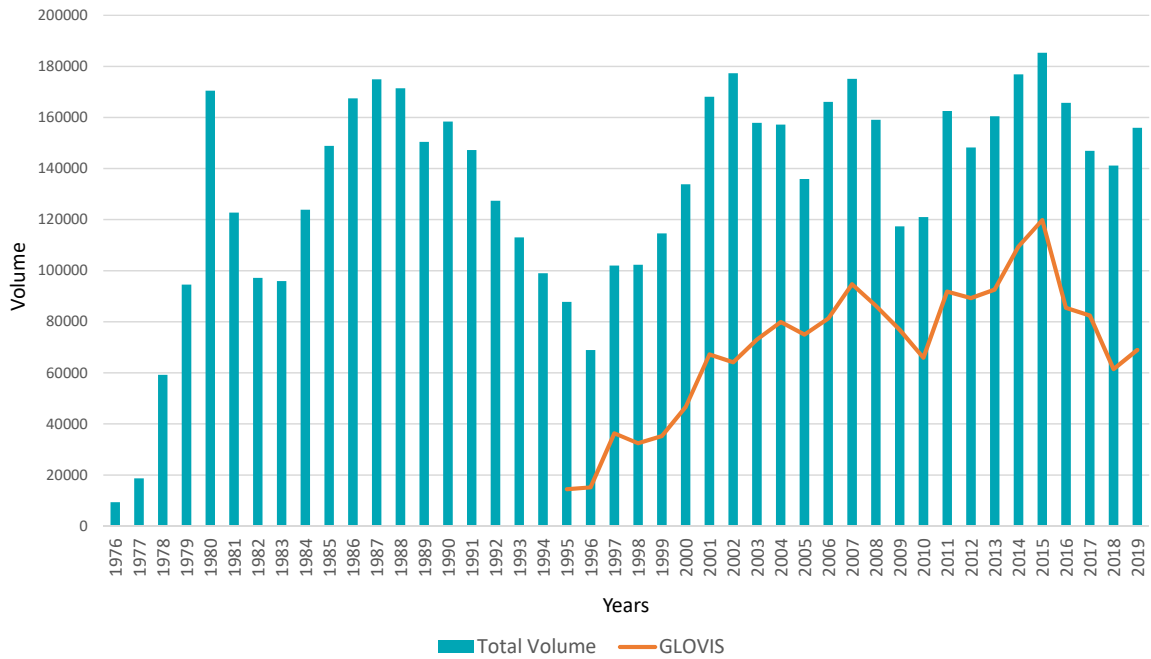
- GLOVIS America (GLOVIS) is the third-party logistics company for KIA Motors America. GLOVIS/KIA has been a customer of the NWSA since 1995. The current incentive and exclusivity agreement with GLOVIS ended on December 31, 2019 and a new five-year agreement with the same provisions is necessary.
- Auto Warehousing Company (AWC) has been a longtime customer of the NWSA, handling over 5.8 million vehicles since our partnership began. In order to service the GLOVIS business, additional property is necessary to meet the current volume needs.
- Economic Impact: AWC directly employs approximately 180 full-time equivalent personnel for their Tacoma operation. Of which approximately 80 are related to GLOVIS (KIA). Additionally, this facility creates a significant number of Long Shore and ancillary jobs in both rail and trucking.
- In addition to property needs for the GLOVIS business, we have worked with them to identify an incentive program to retain current customers and entice additional volume through our gateway.

Background Continued

- The auto yard on the West Sitcum Terminal will need to be relocated to the East Sitcum Terminal by the end of the 3rd quarter of 2020 due to a potential new container opportunity.
- At a future Managing Members meeting we will request funding to pay for this relocation.
- The East Sitcum Terminal will need to be prepared for auto storage, by accomplishing the following items:
 - Pavement repairs
 - Striping
 - Fencing purchase/installation



AWC and GLOVIS Historical Volume Through Tacoma





Proposed GLOVIS Use Agreement

Draft Confidential – For Discussion Purposes Only – Non-Binding Proposal

All NWSA Real Estate Transactions are subject to NWSA Managing Member Approval in a Public Meeting

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Blue: AWC Base Acres **Orange:** Incremental Acres for GLOVIS/KIA



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Proposed 8th Amendment to the Auto Warehousing Company (AWC) Lease and Operating Agreement (cont.)

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Alternatives Considered and Their Implications

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Environmental Impacts / Review

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