

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	<u>5E</u>
Date of Meeting	<u>June 2, 2020</u>

DATE: May 20, 2020

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial Officer & Chief Strategy Officer
Project Manager: Scott Francis, Director, Real Estate – Port of Tacoma

SUBJECT: US Customs and Border Patrol Office Lease

A. ACTION REQUESTED

Request Northwest Seaport Alliance (NWSA) Managing Members authorization for the Chief Executive Officer or his delegate to approve an increase in estimated tenant improvement costs in the amount of \$871,000 for a total estimated tenant improvement cost of \$2,191,000 including a 5% contingency for the previously approved 10-year lease with Harsch Investment Properties, LLC for approximately 14,400 square feet of office space and approximately 5,000 square feet of secured parking area located at 4813 Pacific Highway East, Fife, WA.

B. SYNOPSIS

Federal law mandates Customs Border Patrol (CBP) to inspect all merchandise entering the United States from foreign territory. Thus, CBP's efficient inspection services are integral to the efficient movement of foreign cargoes entering the country through NWSA terminals. All ports of entry must provide suitable office and workspace to CBP. Existing facilities may continue to be operated even though they are not in compliance. However, requirements must be met if any changes are made to a seaport operation or when new seaport facilities are created. CBP exercised this requirement when the NWSA implemented the Straddle Carrier Portal project at the Pierce County Terminal (PCT).

C. BACKGROUND

1. Since 1985 the Port of Tacoma has provided CBP office space at the Port of Tacoma owned building located at 2202 Port of Tacoma Road. This facility is functionally obsolete, has a 3-year life expectancy without major capital improvements and generally does not meet CPB's standards.

2. The Pierce County Terminal (PCT) was in competition for the only available (nationwide) straddle portal monitors. Since PCT is a straddle terminal, these monitors are necessary to maintain the efficient movement of cargo through PCT.
3. The implementation of the straddle monitor system at PCT constituted an operation change that triggered CBP to exercise a Title 19, Code of Federal Regulations requirement for a Port Authority to provide free space, including suitable office and workspace to CBP.
4. CBP required approval of a Free Space Agreement before they would install the \$19M portal monitor at the Port of Tacoma.
5. In June 2017, the NWSA and CBP approved a Memorandum of Agreement whereby the NWSA agreed to provide facilities for CBP personnel that meet their standards. CBT in turn released the Straddle Carrier Portals that are currently installed and operational at PCT.

D. FINANCIAL IMPLICATIONS

Source of Funds

The 2020 NWSA Capital Investment Plan allocates \$2,850,000 for this project.

Financial Impact

Cash expenditure is estimated at \$2,941,000 with contingencies.

- Lease tenant improvement costs: \$2,191,000 with 5% contingency.
- CBP DATA and voice communications equipment and install: \$370,000
- Furniture costs: \$330,000

Initial annual Lease with operating expenses is estimated at \$300,000/yr.

The improvements will be capitalized and depreciated over 10 years, resulting in estimated annual depreciation of \$219,000 per year. The data and voice equipment will be depreciated over 5 years resulting in estimated annual depreciation of \$74,000 per year. The furniture will be depreciated over 10 years resulting in estimated annual depreciation of \$33,000, for a total of \$326,000 per year.

E. ALTERNATIVES CONSIDERED

1. No Action Alternative: Remodel the current location at 2202 Port of Tacoma Road and the Security Building at T.7.

2. No Action Alternative: Build a new 15,000 sq. ft. office building on Port of Tacoma owned property.
3. Approved Action: Lease approximately 14,400 sq. ft. building at Fife Business Park.
 - This option meets all CBP requirements.
 - CBP has approved this location and design.
 - The initial tenant improvement capital expense is lowest option.
 - NPV for 20-year term is less than other options.

Lease Terms:

- Premises: 14,400 SF of office space and 5,000 SF of secured yard.
- Use: general administrative office, warehouse, laboratory space, and vehicle parking.
- Lease term: 10-years with four 5-year extensions available.
- Initial annual rent: \$198,000 (16,500/mo.).
- Initial annual Triple Net Lease (NNN) operating expenses: \$59,000.
- Rent escalation: 3% per year on anniversary date.
- Rent adjustments: Market rent reset at extension periods.
- Security deposit: \$25,795
- Metered utilities: Lessee responsibility.
- Lessor's Maintenance Responsibility: roof, building shell, parking, common areas.
- Lessee's Maintenance Responsibility: interior space and tenant improvements.
- Rent commencement: At occupancy - estimated November 2020.
- Tenant Improvements: Lessor credit = \$504,000. Lessee responsible for all additional improvements (estimated at \$2,191,000 with 5% contingency). This \$871,000 increase over previous estimate reflects the following:
 - General labor and material cost increases.
 - Customs and Border Protection (CBP) scope changes.
 - COVID-19 impact.
 - Addition of prevailing wage requirement.
 - Final design drawings and updated not-to-exceed contractor bid.
 - Addition of a 5% contingency.

F. ENVIRONMENTAL IMPACTS / REVIEW

No environmental impact.

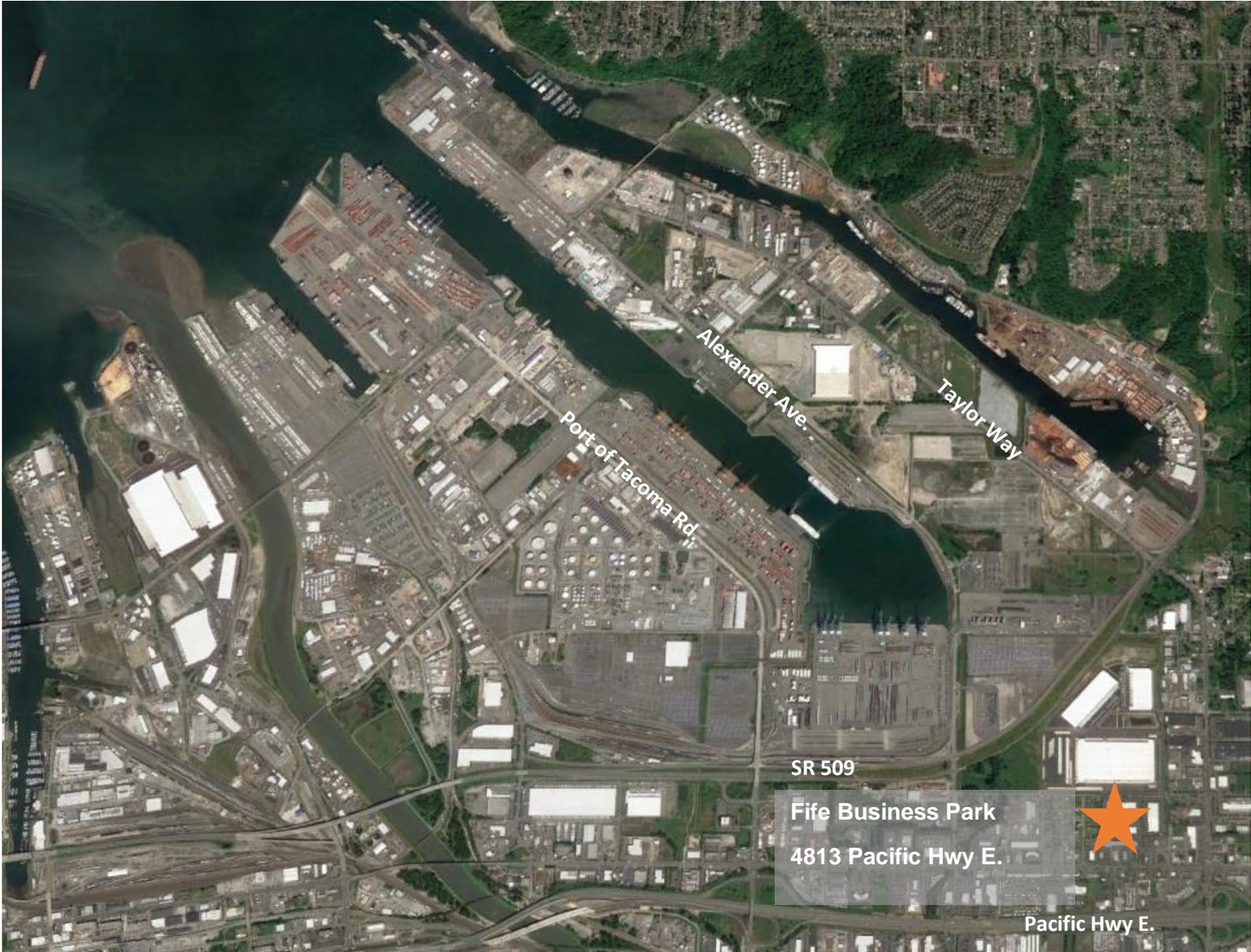
G. ATTACHMENTS TO THIS REQUEST

Computer slide presentation.

H. PREVIOUS ACTIONS OR BRIEFINGS

- November 6, 2018 briefing in Executive Session.
- December 4, 2018 lease approved at Managing Members Meeting.

Customs & Border Patrol Location



Fife Business Park – 4813 Pacific Hwy E.





**THE NORTHWEST
SEAPORT ALLIANCE**
Gateway to Solutions

Item No.: 5E
Date of Meeting: June 2, 2020

US Customs and Border Patrol Office Lease

Presenter: Scott Francis
Director, Real Estate – Port of Tacoma

Action Requested

Request Northwest Seaport Alliance (NWSA) Managing Members authorization for the Chief Executive Officer or his delegate to approve an \$871,000 increase in the estimated tenant improvement costs for a total estimated tenant improvement cost of \$2,191,000 including a 5% contingency for the previously approved 10-year lease with Harsch Investment Properties, LLC for approximately 14,400 square feet of office space and approximately 5,000 square feet of secured parking area located at 4813 Pacific Highway East, Fife, WA.

Background

1. Since 1985 the Port of Tacoma has provided Customs and Border Protection (CBP) office space at the Port of Tacoma owned building located at 2202 Port of Tacoma Road. This facility is functionally obsolete, has a 3-year life expectancy without major capital improvements and generally does not meet CPB's standards.
2. The Pierce County Terminal (PCT) was in competition for the only available (nationwide) straddle portal monitors. Since PCT is a straddle terminal, these monitors are necessary to maintain the efficient movement of cargo through PCT.

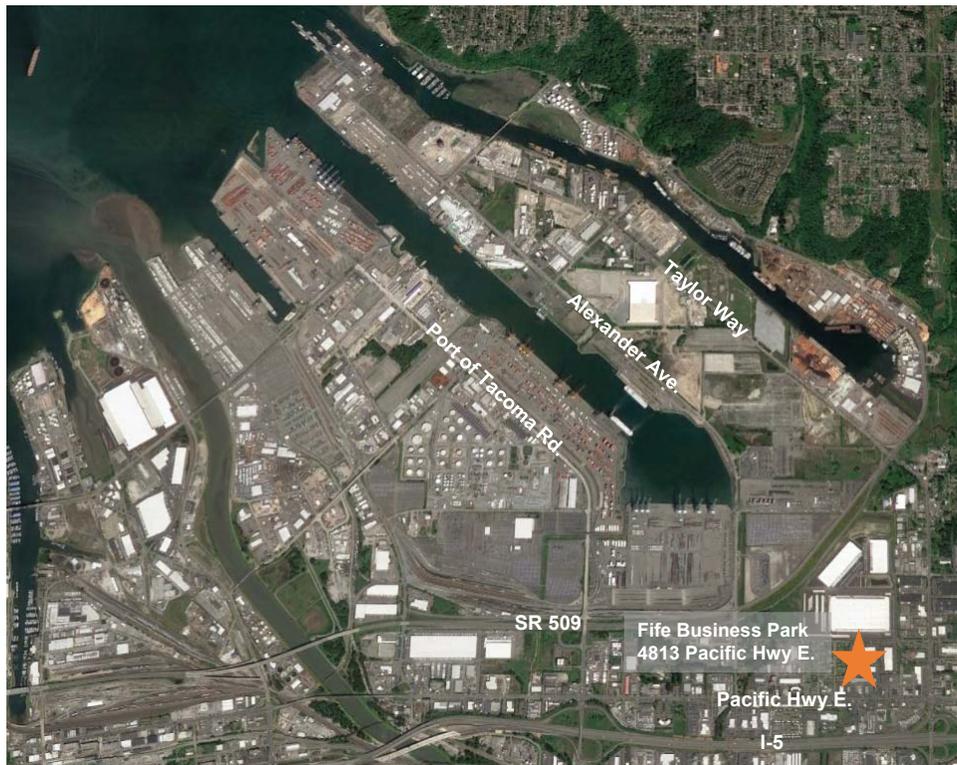
Background Continued

3. The implementation of the straddle monitor system at PCT constituted an operation change that triggered CBP to exercise a Title 19, Code of Federal Regulations requirement for a Port Authority to provide free space, including suitable office and workspace to CBP.
4. CBP required approval of a Free Space Agreement before they would install the \$19M portal monitor at the Port of Tacoma.
5. In June 2017, the NWSA and CBP approved a Memorandum of Agreement whereby the NWSA agreed to provide facilities for CBP personnel that meet their standards. CBT in turn released the Straddle Carrier Portals that are currently installed and operational at PCT.

Background Continued

6. Multiple building alternatives were considered including:
 - 1) Construction of a new building on Port of Tacoma property.
 - 2) Remodel the current building at 2202 Port of Tacoma Road.
 - 3) Lease an existing building.
7. On 12/4/2018, the Managing Members authorized a lease for a 14,400 sq. ft. building at Fife Business Park.
 - This option meets all CBP requirements.
 - CBP approved this location and design.
 - The tenant improvement capital expense is lowest option.
 - NPV for 20-year term is less than other options.

Customs & Border Patrol Location Option



Fife Business Park – 4813 Pacific Hwy E.



Lease Terms

- Premises: 14,400 SF of office space and 5,000 SF of secured yard.
- Use: general administrative office, warehouse, laboratory space, and vehicle parking.
- Lease term: 10-years with four 5-year extensions available.
- Initial annual rent: \$198,000 (16,500/mo.).
- Initial annual triple net lease (NNN) operating expenses: \$59,000.
- Rent escalation: 3% per year on anniversary date.
- Rent adjustments: Market rent reset at extension periods.
- Security deposit: \$25,795

Lease Terms Continued

- Metered utilities: Lessee responsibility.
- Lessor's Maintenance Responsibility: roof, building shell, parking, common areas.
- Lessee's Maintenance Responsibility: interior space and tenant improvements.
- Rent commencement: At occupancy - estimated November 2020.

Lease Terms Continued

- Tenant Improvements: Lessor credit = \$504,000. Lessee responsible for all additional improvements (estimated at \$2,191,000 with 5% contingency). This \$871,000 increase over the previous estimate reflects the following:
 - General labor and material cost increases.
 - Customs and Border Protection (CBP) scope changes.
 - COVID-19 impact.
 - Addition of prevailing wage requirement.
 - Final 95% design drawings and updated not-to-exceed contractor bid.
 - Addition of a 5% contingency.

Financial Implications

- The 2020 NWSA Capital Investment Plan allocates \$2,850,000 for this project.
- Cash expenditure is estimated at \$2,941,000 with contingencies.
 - Lease tenant improvement costs: \$2,191,000 with 5% contingency.
 - CBP DATA and voice communications equipment and install: \$370,000
 - Furniture costs: \$330,000
- Initial annual Lease with operating expenses is estimated at \$300,000/yr.
- The improvements will be capitalized and depreciated over 10 years, resulting in estimated annual depreciation of \$219,000 per year. The data and voice equipment will be depreciated over 5 years resulting in estimated annual depreciation of \$74,000 per year. The furniture will be depreciated over 10 years resulting in estimated annual depreciation of \$33,000, for a total of \$326,000 per year.

Action Requested

Request Northwest Seaport Alliance (NWSA) Managing Members authorization for the Chief Executive Officer or his delegate to approve an \$871,000 increase in the estimated tenant improvement costs for a total estimated tenant improvement cost of \$2,191,000 including a 5% contingency for the previously approved 10-year lease with Harsch Investment Properties, LLC for approximately 14,400 square feet of office space and approximately 5,000 square feet of secured parking area located at 4813 Pacific Highway East, Fife, WA.

12