

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

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

**Item No.** 9B  
**Date of Meeting** August 6, 2024

**DATE:** July 15, 2024

**TO:** Managing Members

**FROM:** John Wolfe, CEO

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

**Project Manager:** Erin DeBroux, Sr. Real Estate Manager

**SUBJECT:** Terminal 18 Tenth Lease Amendment

**A. ACTION REQUESTED**

Request the Managing Members of The Northwest Seaport Alliance (NWSA) authorize the Chief Executive Officer or their delegate to execute the Tenth Amendment to the Terminal 18 Lease between SSA Terminals (Seattle Terminals), LLC (SSAT) and the NWSA.

**B. SYNOPSIS**

The Terminal 18 (T-18) Lease includes a Market Rate Adjustment provision triggering a Market Rate Adjustment should Terminal 46 (T-46) be leased as an international container terminal prior to January 1, 2026. Due to the potential impacts a rental rate change would have to either SSAT or the NWSA at T-18, the parties mutually agree to remove the Market Rate provisions related to T-46 with no substantive financial impact to the "North Harbor Strategy" approved on April 2, 2019. In addition, language regarding Tariff No. 300/149 related to use of shore power is being incorporated.

Furthermore, SSAT will be completing a capital improvement project to install transtainer runs to the terminal. Via this 10<sup>th</sup> Amendment, SSAT shall perform all work to complete the project at its initial and sole cost. The NWSA will reimburse SSAT for all actual costs incurred in connection with completion of this project, and SSAT will reimburse the NWSA with an additional monthly rental amount.

## C. BACKGROUND

### **Market Rate Adjustment:**

At the July 22, 2014 Port of Seattle Commission meeting, the Port of Seattle commissioners approved draft Market Rate terms as follows: “The rent schedule at T18 and T30, unless modified by the MFN application, will follow the “MAG” rent plus “Container Volume Lift Rate Fee” schedule at T46 (per section 6. of the 13<sup>th</sup> Amendment to the T46 lease) through 2025, even if the Total Terminal International’s (TTI) lease terminates early. After 2025, there will be a market rate adjustment of the land rent MAG based on land values for Port of Seattle international container terminals and including valuation of their improvements and all lease provisions that have economic consequences contained in the respective leases, all based on an approach to valuation consistent with the standards of professional appraisal practice. For purposes of these periodic valuations of land and improvements, the parties agree that the appraisal shall be based on the premise that the highest and best use of land and improvements is as an international container terminal.”

The T-18 Sixth Amendment incorporated the same MAG and Market Rate Adjustment language addressing the above terms in consideration of the TTI lease due to terminate December 31, 2025, “provided however, should the T-46 lease be amended, cancelled, renewed, or should the Port [NWSA] enter into a new lease at T-46 on or prior to December 31, 2025,” this would trigger a Market Rate Adjustment.

The North Harbor Strategy adopted April 2, 2019, related to the redevelopment of Terminal 5 included a termination agreement for the early termination of the TTI Lease at T-46 and an Eighth Amendment to the T-18 Lease. The Eighth Amendment to the T-18 Lease established that TTI’s early termination at T-46, effective December 31, 2019, would not result in a Market Rate Adjustment and clarified that a new lease at T-46 would only apply the Market Rate Adjustment if the new lease is for an international container terminal. At the time of the adoption of the North Harbor Strategy approximately 29 acres of T-46 was planned for a cruise terminal while approximately 56 acres were being marketed for marine cargo related uses, excluding international container operations.

However, the global pandemic and connected cargo surge have had implications on port operations and approaches to infrastructure planning, resulting in the cruise development being terminated and a renewed cargo interest in utilizing T-46, starting with the opening of an off-dock cargo storage yard with Pacific Crane Maintenance Company (PCMC) as the operator in August 2021. The NWSA also entered into a ten-year term lease with the Pacific Maritime Association which included 7 acres of terminal yard for their training facility in June 2021, and a short-term lease with the U.S. Coast Guard (USCG) in November 2022 for approximately three years plus options for approximately 17 acres of terminal yard and approximately 1,100 linear feet of berth at

the south end of T-46 in support of their dredging and slip widening project. The current container yard, approximately 65 acres, plus the adjacent berth can support a one-berth terminal operation in the short-term.

The NWSA staff has engaged in marketing efforts to lease T-46 on a short-term basis as a single-berth international cargo facility, with the same length of term as the USCG lease, while also seeking a long-term lease (+/- 35-year term) for a two-berth facility for international cargo. As the NWSA continues to work toward entering into a short-term and/or long-term lease for international container operations prior to the end of 2025, triggering a Market Rate Adjustment for T-18 remains a possibility. A short-term lease would result in lease rates lower than the current terminal rate at T-18 due to the significant investment required to make the terminal operational for a shorter period of time. This scenario would put the NWSA at risk of a Market Rate Adjustment lowering the T-18 terminal rates. Alternatively, should the NWSA enter into a long-term lease for a two-berth facility requiring large capital investments, it would more than likely result in a lease rate higher than the current terminal rates at T-18.

Therefore, the NWSA and SSAT agree to delete the Market Rate Adjustment language as it relates to T-46 which will mitigate potential financial impacts to both entities, forego the January 1, 2026 scheduled Market Rate Adjustment, and recommence with the regular five-year Market Rate Adjustments starting January 1, 2031.

**Terminal 18 – Tariff No. 300/149:**

The T-18 10<sup>th</sup> Amendment will include the adoption of language related to Tariff No. 300/149 as currently in effect, related to the use of shore power, the same as incorporated into the Third Amendment to Terminal 5 Lease. It is the intent of the NWSA to be consistent with this requirement of all international container terminals and to include it with any new terminal lease amendment where applicable.

**Transtainer Runs Project:**

SSAT has interest in completing a capital improvement project to install transtainer runs at Terminal 18. The NWSA and SSAT agree that SSAT shall perform all work in connection with the Transtainer Runs Project (TRP), and at SSAT's initial sole cost and expense. The Actual Costs incurred by SSAT in connection with its performance of the TRP shall be reimbursed by NWSA and converted into Capital Improvement Rent in accordance, in accordance with the following terms:

- The estimated TRP budget is \$4,000,000;
- NWSA retains the right to inspect the TRP for compliance with final TRP plans and specifications as approved by NWSA;

- Following confirmation of the Actual Costs for the TRP, SSAT shall provide an amortization schedule showing the amortization of the Actual Costs for such Capital Improvement at an interest rate equal to six percent (6%) per annum, calculated in the Actual Cost Statement from Lessee for a period of ten (10) years;
- SSAT shall reimburse NWSA monthly through the payment of Capital Improvements Rent, being the equal installments shown on the applicable Amortization Schedule for the TRP.

#### **D. FINANCIAL IMPLICATIONS**

##### ***Source of Funds***

The 2024-2028 Capital Improvement Plan Budget allocates \$4.0 million in 2024 for this project.

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

The NWSA will collect \$533,000 in extra rent per annum, for a 10-year period, to fully recover the cost of this project plus a 6% rate of return.

##### ***Capitalization and depreciation***

The \$4 million project cost will be capitalized and depreciated over a 20-year life at \$200,000 per year in depreciation expense. This will be offset by the special revenue of \$533,000 per year

#### **E. ATTACHMENTS TO THIS REQUEST**

- Draft Tenth Amendment to the Terminal 18 Lease
- Draft Amortization Schedule for Tenant Improvement Special Payment
- July 22, 2014 Port of Seattle Commission Action – Lease Termination Agreement for T-5 and related amendments to crane and lease agreements for T-18 and T-30

**F. PREVIOUS ACTIONS OR BRIEFINGS**

JULY 22, 2014 PORT OF SEATTLE COMMISSION ACTION - Lease Termination Agreement for Terminal 5, and related amendments to crane and lease agreements for Terminal 18 and Terminal 30.

Item No.: 9B  
Date of Meeting: August 6, 2024

# TERMINAL 18 TENTH LEASE AMENDMENT




**THE NORTHWEST  
SEAPORT ALLIANCE**  
SEATTLE + TACOMA

Presenter Name: Erin DeBroux  
Presenter Title: Sr. Real Estate Manager

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## ACTION REQUESTED

Request the Managing Members of The Northwest Seaport Alliance authorize the Chief Executive Officer or their delegate to execute the Tenth Amendment to the Terminal 18 Lease between SSA Terminals (Seattle Terminals), LLC and the NWSA.



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## Summary

- Terminal 18 Lease includes a Market Rate Adjustment provision, which triggers a Market Rate Adjustment should Terminal 46 be leased as an international container terminal prior to January 1, 2026 having financial impacts to both SSAT or NWSA at T-18.
- Language regarding Tariff No. 300/149 is being incorporated in relation to the use of shore power.
- SSAT will be completing a capital improvement project to install transtainer runs.
  - SSAT will perform all work to complete the project at its initial cost
  - NWSA will reimburse SSAT for actual project costs incurred, and SSAT will reimburse NWSA through additional monthly rent.



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## Background – Market Rate Adjustment

- At the July 22, 2014 Port of Seattle Commission meeting the Port of Seattle commissioners approved draft terms for the T-18 lease which provided that:
  - Rent would be same as TTI lease even if terminated through 2025
  - The first scheduled Market Rate Adjustment would occur January 1, 2025
  - Provided however, should the T-46 lease be amended, cancelled, renewed, or should the Port [NWSA] enter into a new lease at T-46 on or prior to December 31, 2025, this would trigger a Market Rate Adjustment
- T-18 Sixth Amendment incorporated these terms.



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## Background – Market Rate Adjustment

- The North Harbor Strategy adopted April 2, 2019, related to the redevelopment of Terminal 5 included:
  - A termination agreement for the early termination of the TTI Lease at T-46 terminating December 31, 2019
  - Eighth Amendment to the T-18 Lease
    - TTI's early termination at T-46 would not result in a Market Rate Adjustment
    - Clarified that a new lease at T-46 would only apply the Market Rate Adjustment if the new lease is for an international container terminal.



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## Background – Market Rate Adjustment

- A short-term and/or long-term lease for international container operations at T-46 before 2026 would trigger a Market Rate Adjustment for T-18.
  - NWSA Risk: A short-term lease would more than likely result in lease rates lower than the current terminal rate at T-18
  - SSAT Risk: A long-term lease for a two-berth facility requiring large capital investments more than likely resulting in a lease rate higher than the current terminal rates at T-18
  - Risk mitigation requested by both parties



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## Background – Tariff No. 300/149

- T18 amendment will include the adoption of language related to Tariff No. 300/149 as currently in effect, related to the use of shore power, the same as incorporated into the Third Amendment to Terminal 5 Lease.
- It is the intent of the NWSA to be consistent with this requirement of all international container terminals and to include it with any new terminal lease amendment where applicable.



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## Background – Transtainer Runs Project

- SSAT will complete a capital improvement project to install transtainer runs at T18.
- The Parties are in agreement that SSAT will perform the work, NWSA will reimburse SSAT for actual project costs, and SSAT shall reimburse NWSA through monthly Capital Improvement Rent.
- Estimated project cost is \$4 million.
- Following confirmation of actual project costs, amortization schedule will be incorporated into the lease showing amortization of actual costs at an interest rate of 6% per annum calculated over a period of 10 years.



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## Financial Implications

- No financial impacts from deletion of the Market Rate Adjustment Language
- Transtainer Runs Project:**
- The 2024-2028 Capital Improvement Plan allocates \$4.0 million dollars in 2024 for this project.
  - The NWSA will collect \$533K in extra rent per annum, for a 10-year period, to fully recover the cost of this project plus a 6% rate of return.
  - The \$4 million project cost will be capitalized and depreciated over a 20-year life at \$200,000 per year in depreciation expense



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## Environmental Impacts – Transtainer Runs Project

- All permitting to be managed by SSAT.
- No environmental impacts anticipated.



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