

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	<u>9A</u>
Date of Meeting	<u>January 4, 2023</u>

DATE: December 14, 2022

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Don Esterbrook, Deputy CEO

Project Manager: Andre Elmaleh, Sr. Manager, Commercial Team

SUBJECT: DUAL ACTION: NWSA/Port of Tacoma – Thorne Road ILA

A. ACTION REQUESTED

Request Managing Members of The Northwest Seaport Alliance (NWSA) and Port of Tacoma (Port) Commission to authorize the Chief Executive Officer and Executive Director or their delegates to enter into an interlocal agreement (ILA) between the Port of Tacoma and The Northwest Seaport Alliance for the “Thorne Road Properties.”

B. SYNOPSIS

To diversify our cargo business portfolio and continue to grow our gateway, the NWSA has a need for the parcels of land located at 1451 and 1721 Thorne Road, commonly known as the “Thorne Road Properties” to support the automobile business in the Tacoma harbor.

C. BACKGROUND

To support the movement of auto cargo through the gateway, the NWSA needs the use of the Thorne Road Properties which are owned and managed by the Port of Tacoma.

The NWSA has a lease and operating agreement (LOA) with Auto Warehousing Co. (AWC) which currently includes 183 acres of preferential use property. Per the AWC LOA, the NWSA can use or repurpose the property from time to time when needed and will need to provide AWC with replacement properties that are similar in size

and location.

Our gateway container business continues to evolve, moving from a predominant IPI method of shipping cargo to a transload approach, where contents will be repackaged and railed in a more efficient 53' domestic container to move inland. To expand our service offerings, the NWSA has repurposed lot "M", a 16-acre, designated First Point of Rest (FPR) yard for AWC, to support the BNSF domestic rail business.

Since Lot M has been leased to BNSF, the Thorne Road property has been identified as a replacement FPR space, which is required as per our agreement with AWC. See the map below.

The Port owns and manages the Thorne Road Properties and the NWSA seeks to utilize the Thorne Road Properties in support of NWSA business which could include leasing the Premises to NWSA customers as the Permitted Use. The Port supports the NWSA's use of the Thorne Road Properties for NWSA business, although the Port seeks replacement rental income from the NWSA for the month-to-month Port tenants that were displaced by the NWSA's proposed use of the Thorne Road Properties for NWSA business. Port tenants who were located at the Thorne Road Properties were all under month-to-month tenancies, and the Port did provide proper and timely notices of termination to the tenants pursuant to those month-to-month leases. The aim of the ILA is to memorialize the compensation to be paid by the NWSA to the Port for the NWSA's use of the Thorne Road Properties for the Permitted Use and to memorialize the parties' intention that the NWSA's use of the Premises shall be revenue neutral to the Port. Additionally, this is a temporary arrangement, and it is expected that NWSA will be present on these properties for only a few months; as such, the term of this Agreement expires December 31, 2023 unless either party terminates earlier in writing on thirty days' notice (which is expected).

The ILA provides that retroactive to December 5, 2022, the NWSA will have the use of approximately 5.3 acres located at the Thorne Road Properties and will pay the Port of Tacoma a monthly fee for such use commencing December 5, 2022. The NWSA's right to use the Premises includes the right to access, construct, modify, and maintain the Premises or otherwise assign its rights in alignment with the Permitted Use (including to lease, sublease, license to others). The term will be indefinite, subject to termination upon 30 days' notice from one party to the other. The NWSA shall pay to the Port a monthly sum equal to \$34,450.00 ("Use Fee"). The Use Fee shall be adjusted annually on the anniversary date by applicable CPI increase for the previous twelve (12) month period and may not be adjusted

downward. The Use Fee is intended to compensate the Port for lost rental income that would otherwise be paid by a tenant at the Premises and for the NWSA's use of the Premises. The NWSA will be responsible for any future capital improvements, repairs and/or maintenance on the Premises. Any and all modifications, upgrades, maintenance and repair of the Premises shall be the responsibility of the NWSA, subject to approval by the Port. For tenant improvements by an NWSA customer that has entered into an agreement with the NWSA for use of the Premises, the NWSA customer shall be required to follow the Port's Tenant Improvement Process. The NWSA shall be responsible for the stormwater utility fees and the ongoing maintenance, cost and repair of any issues pertaining to stormwater drainage. The ILA contains a balanced mutual indemnity provision.



D. FINANCIAL IMPLICATIONS

The domestic intermodal business at Lot M is forecasted to produce approximately \$1.5M of income in 2023. This is after an estimated \$1.5M of additional drayage expense due to the loss of Lot M for the auto first point of rest. The two home ports will receive 50% of the Income which is \$ 750,000 per year based on the budget/forecast.

The NWSA will pay the Port up to approximately \$400,000 over the course of a year (if no party terminates earlier) per the ILA to rent the Thorne Road Properties. The home ports will each experience a reduction of approximately \$17,225 per month (\$200,000 each if used for a full 12-month period) in NWSA distributable income due

to the ILA payment for this property. The cost to the NWSA to lease the Thorne Road Properties is expected to be offset by a reduction in expense for drayage of autos from T7 to Thorne Road vs T7 to Portac or other properties further from T7. It is also offset by the income from the domestic intermodal business at Lot M discussed above.

E. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.
- Proposed Interlocal Agreement between the NWSA and Port of Tacoma

F. PREVIOUS ACTIONS OR BRIEFINGS

July 6, 2022: 2nd Reading of the BNSF Lease Agreement (Leasing Lot M to BNSF)

July 2, 2020: AWC 8th Amendment