

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS

9E

Item No.

January 4, 2023

Date of Meeting

DATE: December 20, 2022

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Don Esterbrook, Deputy CEO NWSA

Project Manager: Curt Stoner, Sr. Manager Real Estate NWSA

SUBJECT: Macquarie Long-Term Container Terminal Lease – Terminal 7

A. ACTION REQUESTED

No action is requested at this first reading. The following action will be requested at the February 7, 2023 meeting.

Request Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to execute a new lease agreement in substantially the form attached with Macquarie/Ports America Joint Venture at Terminal 7.

B. BACKGROUND

Terminal 7, located in Tacoma on the general central peninsula, successfully served international ocean container customers for several decades. Unfortunately, the combination of carrier consolidation and larger vessels being deployed ultimately limited the operational functionality of this facility. When ocean carrier Yang Ming's lease expired in 2017, followed by a short-term lease with Westwood Shipping, Terminal 7 had to be repurposed supporting breakbulk, US Military missions, Auto discharge and container storage.

Fortunately, we were recently approached by Macquarie/Ports America Venture, an industry leading terminal operator, who expressed interest in a long-term lease at Terminal 7. Their business plan is to cater to smaller size vessels operating in niche

services. In addition, they could offer vessel berth availability to support any overflow cargo destined to Husky Terminal, which is adjacent to Terminal 7.

The Terms of the proposed Lease:

Article	Lease Terms
Premises	<p>Premises will be comprised of one berth being approximately 1,830 linear feet and approximately 30 acres of Yard to include the Administration Building, Marine Tower Building, Maintenance Building and approximately 50,000 SF of Warehouse Building on Terminal 7.</p> <p>Lessee accepts the Premises in its “as is” condition, subject to engineering inspection of the property by Lessee to include the wharf integrity, as of February 15, 2023; provided however, Lessee will not be liable for any pre-existing conditions at the Premises.</p> <p>With 30-day notice to Lessee, Lessor may, on an ad hoc basis, utilize up to 5 acres of the Leased Premises to accommodate a U.S Military operation following the commencement of this agreement with a corresponding Rent credit.</p>
Term	April 1, 2023, through August 31, 2031, with rent commencing no later April 1, 2023. Three each 5-year extensions, with the first two exercisable at Lessee's discretion and the third subject to mutual agreement between Lessor and Lessee.
Rental Rate	\$90,000 per acre per year for the 30-acre Yard and .30 cents per month per square foot for 50,000 SF in the T7 Warehouse to be effective April 1, 2023. Rent is subject to an annual escalation beginning April 1, 2024 calculated using the Consumer Price Index for the Seattle-Tacoma-Bellevue Area.
Security Deposit	12-months base Rent plus WA State Leasehold Excise Tax in accordance with the NWSA Master Policy.
North Intermodal Yard	Lessor will own and operate the North Intermodal Yard. Lessor will invoice Lessee for use of the NIM at NWSA Tariff 300 rates.
Ship-to-Shore Cranes	Lessee will use Cranes 2403, 2404, 2077, at no rental cost to Lessee. Lessee will be responsible at Lessee cost for all Crane Maintenance, Repair and Certification to be performed by Lessor and billed back to Lessee monthly.

	Lessor will have no obligation for ship to shore crane maintenance, repair, certification, or replacement.
Cargo Handling Equipment	Cargo handling equipment utilized by Lessee within 18 months of the effective date of this lease shall meet EPA Tier 4 emission standards or the current Tier standard in effect on the date of equipment purchase or employ zero emission technology, unless otherwise agreed amongst the Parties.
Permits	Lessee is responsible for obtaining and maintaining all permitting for any Tenant Improvements, operations, and environmental responsibilities (including stormwater, industrial wastewater permits for ongoing operations).
Maintenance and Repairs	Lessee shall be responsible for routine maintenance and repairs to the Premises. Lessor and Lessee will negotiate in good faith to develop a Maintenance Matrix to determine Lessor's and Lessee's responsibility related to maintenance on the Premises.
Insurance	<p>Marine General Liability: \$5M/\$10M Business Auto Liability: \$3M Pollution Legal Liability: \$3M Personal Property Insurance: Replacement Cost Worker's Compensation: As required by WA State Law Employer's Liability: \$3M</p> <p>Property Damage: Lessor shall purchase property insurance ("Port Property Policy"), and Lessee shall reimburse to Lessor, or pay to the insurer(s) if billed directly by the insurer(s), that portion of the insurance premium for the Port Property Policy that is allocable only to the Premises and Port-owned and NWSA-owned improvements thereon controlled by Lessee. Lessee will not be responsible for the insurance premium applicable to other properties not controlled by Lessee. The estimated annual prorated insurance premium for the 2022 to 2023 period is \$164,838.00.</p> <p>All Lessee insurance policies shall list The Northwest Seaport Alliance and the Port of Tacoma as additional insureds.</p>
Infrastructural Upgrades	Lessee takes the Premises in an "as is" condition and acknowledges that over time, the terminal may require or otherwise benefit from infrastructural upgrades requiring major capital investment. Lessor and Lessee will in good

	faith discuss and plan for any such capital improvements and, if agreed, will delineate the responsibility for performing and/or funding any such improvements in an amendment to the Lease. Capital improvements so agreed may also result in an associated adjustment to the rental rate.
Environmental Provisions	Lessee will comply with NWSA Tariff No. 300, Item No. 800 regarding Clean Trucks. Lessee commits that shore power capable vessels calling at the Premises will use shorepower while at berth if and when Lessor installs shorepower at Lessor cost at the Premises.

C. FINANCIAL IMPLICATIONS

No capital investment is expected to be needed to support this lease. The NWSA spent approximately \$200,000 to bring the cranes back to operational readiness levels. During this effort, maintenance staff identified the need to repair all three crane's elevator rails at an estimated cost of \$290,000. The additional \$290,000 will be included in the action item request at the second reading.

Financial Impact

For the nine-month period from April to December 2023, this lease will provide approximately \$2.2 million in non-volume revenue with non-guaranteed annual volume related revenue of 1.0 million. After including forecasted operating expenses and the cost to bring the cranes back to operational readiness, this lease will produce net cash income estimated at \$1.6 million in 2023. For the full year of 2024, cash income is estimated at \$3.0 million (\$100,000 per acre per year). During the term of the lease from April 2023 to August 2031, the expected net cash income is \$26.5 million.

D. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative:** Forego executing the proposed Lease with Macquarie and the estimated income.
- **Recommended Action:** NWSA Staff recommends executing the proposed Lease with Macquarie.

E. ENVIRONMENTAL IMPACTS / REVIEW

Permitting: Lessee will be responsible for all required permitting. No impacts are expected.

Remediation: No Remediation is expected to be required.

Stormwater: Lessee will apply for and hold the Industrial Stormwater General Permit.

Air Quality: Lessee is required to deploy Tier 4 cargo handling equipment within 18 months of Lease commencement.

F. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.

G. PREVIOUS ACTIONS OR BRIEFINGS

None