

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5A
Date of Meeting December 3, 2019

DATE: November 21, 2019

TO: Managing Members

FROM: John Wolfe, CEO

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

Project Manager: Scott Pattison, Senior Manager, NWSA Real Estate

SUBJECT: Terminal 115 – Third Amendment to Lease with Northland Services, Inc.

A. ACTION REQUESTED

Request Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or his delegate to execute the Third Amendment to the Terminal 115 (T-115) term lease agreement between the NWSA and Northland Services, Inc. (Lessee).

B. SYNOPSIS

T-115's 69-acre marine terminal, which was constructed between the late 1960s and early 1970s, is in need of major capital upgrades. The Lessee is interested in recapitalizing and reconfiguring the terminal with new gates, cross-dock and other buildings and infrastructure, provided it can amortize its investments over their lives.

The third amendment to this lease expands Lessee's premises by 4.9 acres and extends the base lease term by 20 years, followed by three (3) ten-year options in consideration of Lessee taking on obligations for the rail yard, deteriorated sections of the 1,200 lineal foot concrete dock, and meeting minimum cumulative capital investment thresholds, (all in 2019 dollars, to be adjusted by CPI) as follows:

- \$10 million to extend the base term of the lease from 2033 to 2052;
- \$15 million (cumulative) to exercise its first ten-year option from 2053 to 2062;
- \$18 million (cumulative) to exercise its second ten-year option from 2063 to 2072; and
- \$20 million (cumulative) to exercise its third ten-year option in 2073.

The rental rate will be adjusted annually by CPI, with no CPI cap, except at the start of years 2033, 2043, 2053, 2063 and 2073, when rent will be reset by market rate

adjustment; in no instance will rent decrease as a result of declining CPI or market rates.

C. BACKGROUND

Lessee provides barge service to more than 200 cities and villages throughout Alaska, and bi-weekly barge service to Honolulu, Hawaii. A significant amount of seafood, including reefers, is transported from Alaska to Puget Sound by Lessee for storage in NWSA cold-storage facilities, and export through the NWSA's international container terminals.

T-115's marine terminal was originally constructed in ~1970 and was expanded over the decades on a piecemeal basis. Much of the infrastructure is beyond design life and needs replacement. To improve throughput and enhance terminal safety and security, buildings need to be relocated. The current gates lack queuing on terminal, with trucks backing up on public roadways. The rail is in port condition and needs to either be removed or replaced. The main wharf's original structural piles are deteriorating and will need to be removed or replaced.

Lessee is requesting a 20-year extension to the base Lease term, followed by three (3) ten-year options. This would allow them to undertake major capital investments – including demolition of aging buildings and infrastructure, and construction of new buildings, gates and infrastructure now and in the future.

The third amendment requires Lessee to make a *minimum* investment of \$20 million (in 2019 dollars, to be adjusted by CPI) over the Lease term, including options.

In consideration of extending the term and providing options to further extend the term, the NWSA requires Lessee to: Expand its premises by ~4.9 acres (3.5 acres which currently are common area and generate no revenue for the NWSA); assume responsibility for deteriorated rail infrastructure in this expanded area; and to either remove deteriorated sections of the wharf, or repair the deteriorated structure to a 50-year life.

This amendment would extend the base term from 30 years to 50 years, to expire in 32 years, on December 31, 2052. Rent would be subject to market rate adjustment on January 1, in 2033 and 2043, with annual CPI adjustments (with no CPI caps) in all other years of the base term.

Each of the three (3) ten-year options would be at Lessee's discretion, subject to Lessee being in full compliance with all terms of the Lease, would include market rate adjustments at inception and annual CPI adjustments thereafter. The options are to incentivize Lessee to make investments beyond established minimums over time.

Maintenance obligations for the unimproved sections of the wharf and for the rail yard transfer from the NWSA to Lessee.

This amendment would become effective January 1, 2020, enabling Lessee to commence major recapitalization investments in 2020, subject to permits.

Surety would remain at the current three (3) months' rent given \$20 million in minimum levels of investment required of Lessee between 2020 and 2070, Lessee assuming material maintenance obligations, and Lessee's sound payment history.

D. FINANCIAL IMPLICATIONS

Financial Impact

There is no capital investment needed for the proposal to amend the lease. All capital improvements would be the responsibility of the tenant. Therefore, there is no depreciation or rate of return because there is no investment.

The net present value of the cash flow of the rent for this third amendment to the lease is \$56M. This is \$40M greater than the no action alternative considered.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative:** The NWSA would invest \$39M to rebuild the wharf and a portion of the rail yard, and lessee would continue with the current rent schedule through 2032 and then extend through 2052.
- **Recommended Action:** Execute this Third Amendment to the T-115 lease thereby incentivizing Lessee to invest in this marine terminal over the extended base term and to qualify for subsequent options to further extend the lease term. This would ensure T-115 remains an active, efficient marine terminal – one that bolsters use of NWSA cold storage facilities and feeds export volumes of cargo, including reefer cargo, through the NWSA's international container terminals.

F. ENVIRONMENTAL IMPACTS / REVIEW

Permitting: Lessee is responsible for securing all applicable entitlements to undertake improvements over the lease term.

Remediation: Lessee is responsible for remediation stemming from its activities, including those relating to demolition or construction of Lessee improvements. Lessee will work with Port of Seattle remediation team during design and construction.

Stormwater: Lessee will continue to be responsible for compliance with stormwater regulations over the lease term and exercised options.

Air Quality: Lessee will continue to be responsible for compliance with air quality regulations and NWSA policies over the lease term and exercised options.

G. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.

H. PREVIOUS ACTIONS OR BRIEFINGS

May 24, 2005 – Execution of the Second Amendment to Lease with Northland Terminal Services, Inc, and project-wide authorizations for a total of \$24,500,000.

November 11, 2003 – Execution of the First Amendment to Lease with Northland Terminal Services, Inc.

September 23, 2003 – Project-wide authorization for funding of preliminary design services associated with replacement of approximately 1,200 lineal feet of concrete apron at Terminal 115 in the amount of \$2,000,000.

January 14, 2003 – Execution of a Term Lease with Northland Terminal Services, Inc.