



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

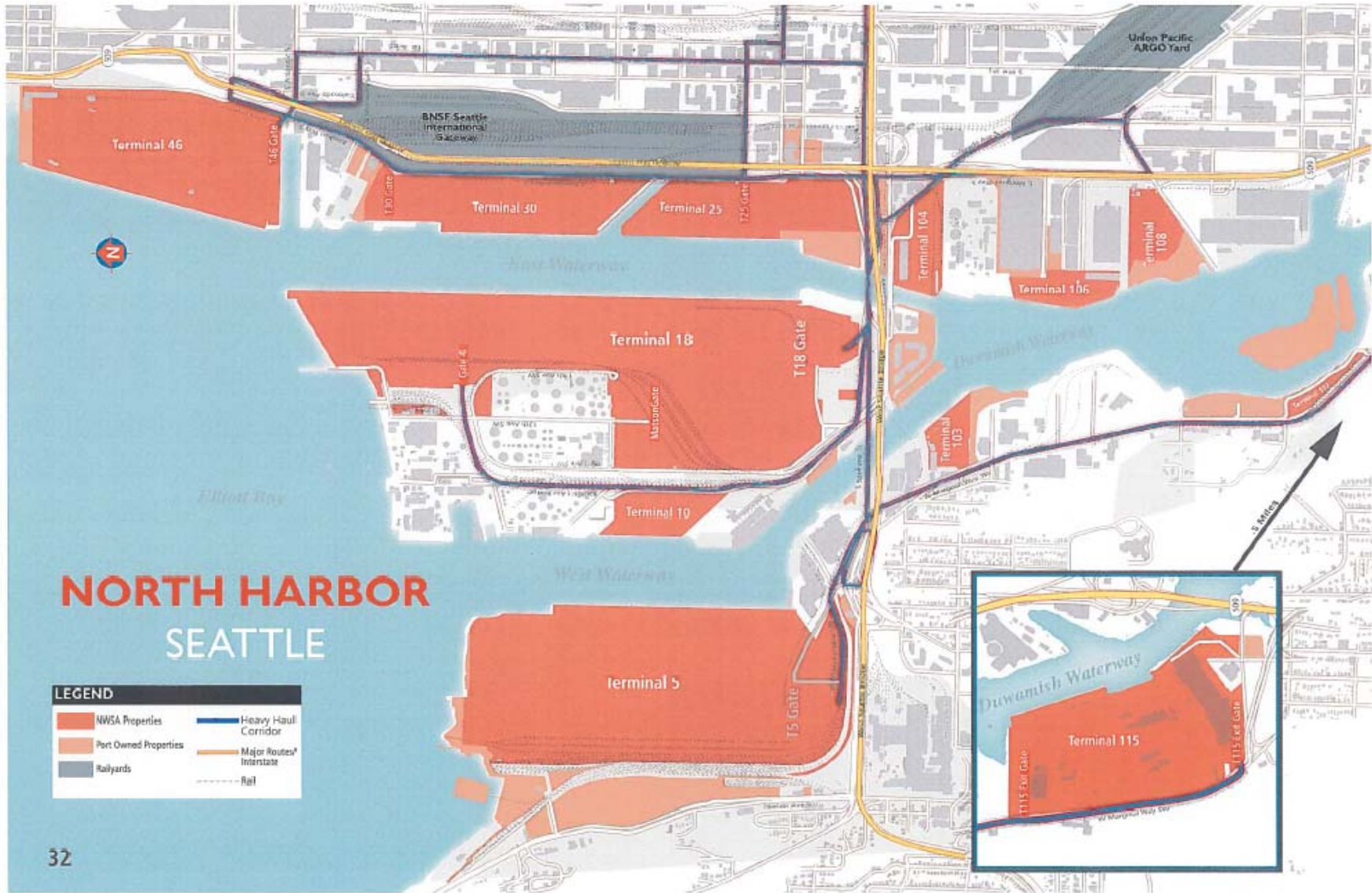
Terminal 115 – Third Amendment to Lease with Northland Services, Inc.

Presenter: Scott Pattison
Title: Senior Manager

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).





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Terminal 115



— NWSA Boundary
 Federal Channel Waterway
 Duwamish Commercial Waterway

0 125 250 500 Feet

TERMINAL 115

NORTH HARBOR FACILITIES

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Background

- The current lease is ~70 acres and operates as a marine terminal.
- Lessee provides barge service to more than 200 cities and villages in Alaska, and bi-weekly barge service to Honolulu, Hawaii.
- The majority of Lessee's cargo is either purchased or sold in the Puget Sound region, resulting in a disproportionately high economic impact per TEU vs. Gateway cargo, which merely passes through the region.
- Lessee ships significant volumes of seafood from Alaska to Puget Sound, where much of it is stored in Port cold storage facilities, sold and exported through NWSA international marine terminals.
- Beyond Lessee's direct activity at T-115, it drives and attracts volumes to other NWSA facilities and is a catalyst for the regional economy.



Background

- T-115 was constructed in ~1970 and was expanded in a piecemeal basis, restricting throughput capacity.
- Much of the infrastructure is beyond design life and needs replacement.
- Lessee is interested in recapitalizing and reconfiguring the terminal with new gates, a new cross-dock facility, other buildings and infrastructure, provided it can amortize its investments over their lives.
- The current lease expires in 2032, Lessee would like to extend to 2052 followed by three (3) ten-year options, to justify investments.



T-115 Condition Assessment



TERMINAL 115

NWSA Boundary
 Federal Channel Waterway
 Duwamish Commercial Waterway

REPAVE
DEMOLISH

NORTH HARBOR FACILITIES

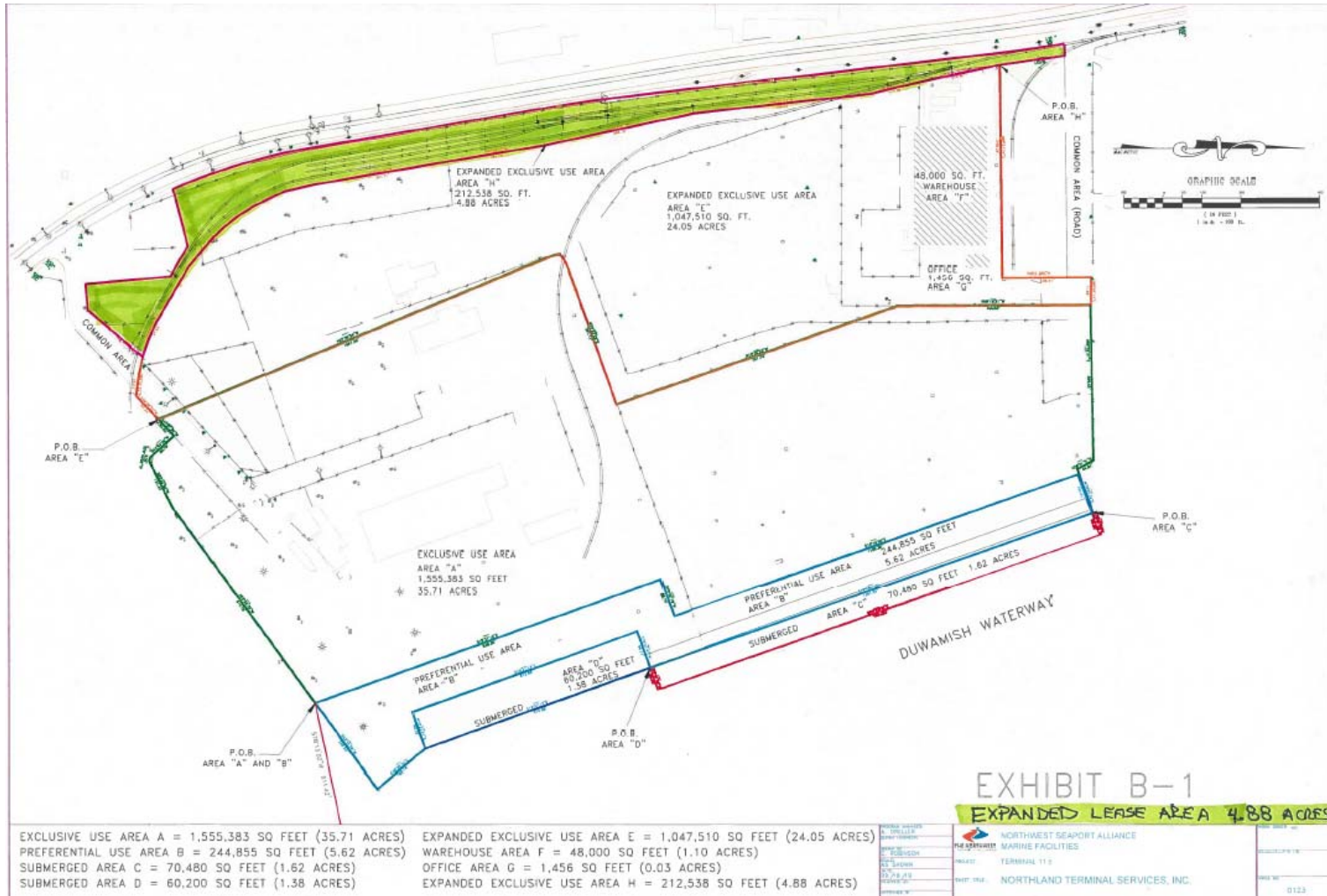
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Synopsis of Third Amendment

- In consideration of NWSA extending the base lease term by 20 years with three (3) ten-year options, Lessee has agreed to:
 - Expand its premises by 4.9 acres
 - Assume responsibility for the rail yard
 - Assume responsibility for the deteriorated wharf sections
 - Make guaranteed minimum levels of investment
 - Rent being adjusted annually - either by CPI or market rate adjustment



Leased Area will increase

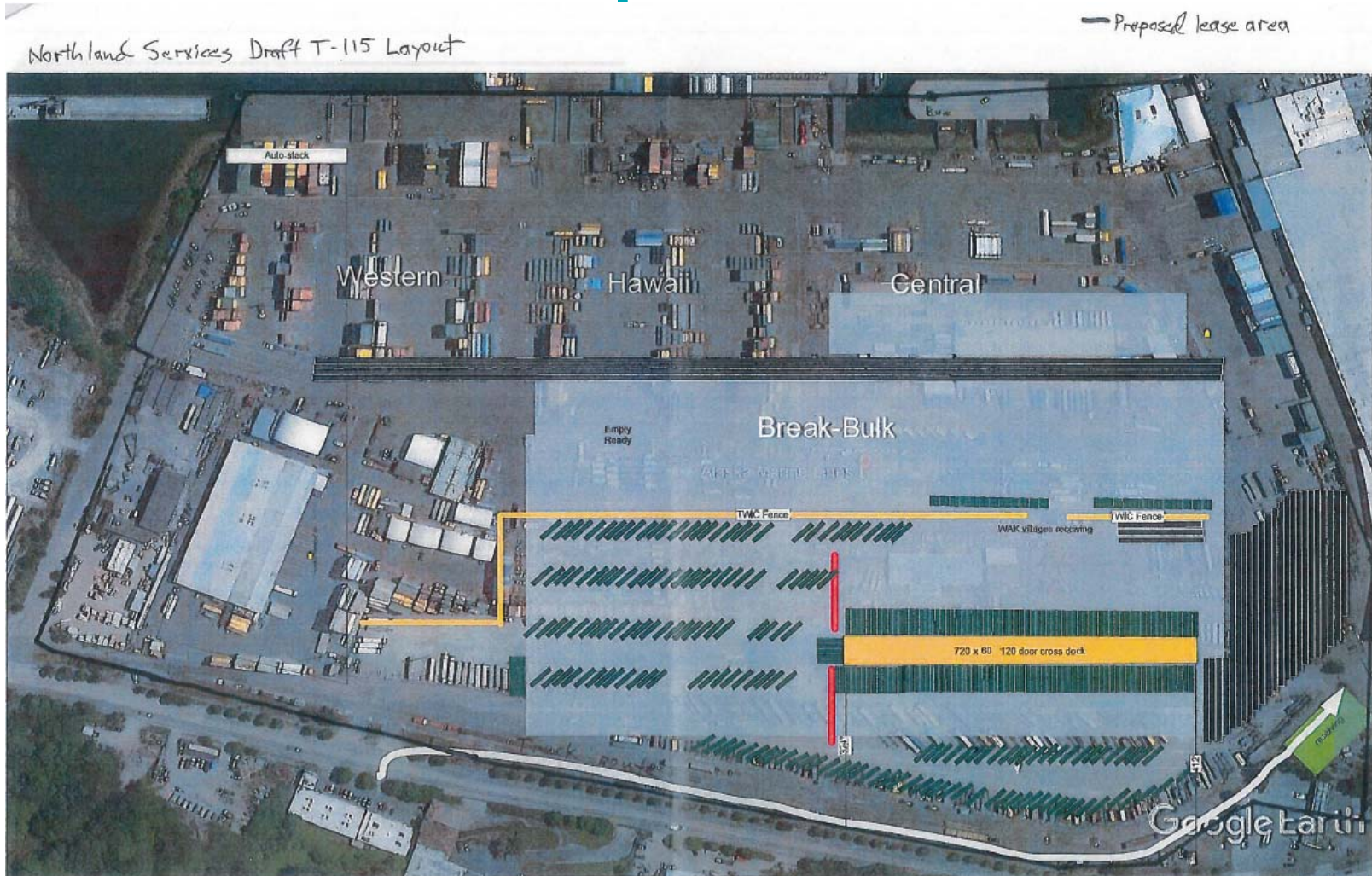


Synopsis of Third Amendment, continued

- **Meet *minimum* capital investments as follows** (2019 dollars):
 - \$10M minimum to extend the base lease term by 20 years
 - \$15M cumulative minimum to exercise its first 10-year option
 - \$18M cumulative minimum to exercise its second option
 - \$20M cumulative minimum to exercise its third option
- **Rent** - 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.



Tenant Improvements



Financial Implications

- **Source of Funds** – There is no NWSA capital investment associated with the proposed third amendment to the lease.
- **Financial Impact** – The NWSA is making no investment, therefore there is no depreciation or rate of return under this amendment.
- **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.



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 the Third Amendment to the T-115 lease, thereby incentivizing Lessee to invest in this marine terminal over the extended base term and options to extend the lease term. This would ensure T-115 remains an active, efficient marine terminal – one that bolsters:
 - Rental revenues to the NWSA,
 - Use of NWSA cold storage facilities,
 - Export volumes of cargo through NWSA international container terminals, (including reefer cargo), and
 - The regional economy, with local purchases and sales of goods shipped.



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 the 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.



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