

Item No.: 3A

Date of Meeting: 2/26/2019



**THE NORTHWEST
SEAPORT ALLIANCE**
Gateway to Solutions

North Harbor Commercial Strategy Briefing

Presenter: Tong Zhu
Chief Commercial Officer & Chief Strategy Officer

Key Commercial and Operational Objectives for North Harbor Strategy

- Realign container cargoes while keeping terminal operations fluid throughout the harbors
- Develop strategic terminals consistent with the NWSA 10-year Strategic Business Plan to support future vessel needs and long-term volume growth
- Retain and grow marine cargo
- Retain and grow maritime, manufacturing and export jobs

Note: All authorizations are pending parties' final review and approval



Key Elements of North Harbor Commercial Strategy Briefing

- Draft Terminal 5 (T5) SSAT (Matson) Lease
- Draft Terminal 5 (T5) Long-term Lease
- Draft Terminal 46 (T46) TTI Lease Termination
- Draft Terminal 18 (T18) SSAT Lease Amendment



Key Elements of Draft Term Sheet

T5 SSAT (MATSON) LEASE

ARTICLE	LEASE TERM
Premises	60 acres total: 44 acres Exclusive Use backlands + 10 acres 1300 lineal feet Preferential Use South Berth + 4.35 Acres Construction Mitigation Area + Admin Building; See Exhibit A
Term	21 months, 4/1/2019 to 12/31/2020
Rent	2019-2020: \$2,625,000 in total for 60 acres; No escalation
Security Deposit	12 months Rent, Preferential Use Fee, LET: \$1,548,150
Premises Condition	Lessee accepts T5 Premises “As-is” and is responsible for all costs to get the T5 Premises ready for Matson
Permitted Use	Stevedoring Matson Hawaii Service vessels currently at Terminal 30; NWSA has secondary use rights
Maintenance	Lessee is responsible for all maintenance and repairs of any improvements (above ground) necessary for Lessee’s use and operations at the Premises



Key Elements of Draft Term Sheet

T5 SSAT (MATSON) LEASE

ARTICLE	LEASE TERM
Premises Security	Lessee provided at Lessee cost; Lessee to accommodate Lessor's Permitted Use
Alterations & Improvements	Lessee is responsible for all Alterations & Improvements
Cranes	Lessee bears all re-commissioning, maintenance & repair cost and responsibility for the 4 existing Paceco Cranes; Port of Seattle Cranes 66, 62, 63 & 61.
Utilities & Taxes	Lessee cost and responsibility
Stormwater Permit	Permit held by Lessee; BMPs performed by Lessee; Lessor indemnifies Lessee for stormwater issues prior to Lessee occupancy; Lessee indemnifies Lessor for stormwater issues after Lessee occupancy
Insurance	Marine General Liability \$5M; Business Auto \$2M; Pollution \$2M; Property at replacement cost; Employer's Liability \$3M; Protection and Indemnity Liability \$2M



T5 Terminal Layout

SSAT (MATSON) LEASE



Key Elements of Draft Term Sheet

T5 SSAT JV LONG-TERM LEASE

ARTICLE	LEASE TERM
Lease Date	Effective date is 4/1/2019; Subject to Lessor approval, Lessee will have access to Terminal 5 Premises for purposes of installing Lessee Alterations and Improvements
Rent Commencement	1/1/2021 or 60 days following substantial completion of Phase 1 construction, for 30 years
Premises – Phase 1	~65 acres rentable area, including Preferential Use North Berth (~1420' X ~185'), See Exhibit A–PHASE 1; Rent commences 1/2/2021 or upon Substantial Completion of Phase 1 Lessor Improvements
Phase 2 Expansion	Lessee will expand to 159 rentable acres as outlined in Exhibit A-Phase 2, on or before 1/1/2024 by written mutual agreement, or upon Substantial Completion of Phase 2 Lessor Improvements if after 1/1/2024; Rent per acre for Phase 2 Premises will be at the then current blended per acre per year rate for Phase 1 Premises



Key Elements of Draft Term Sheet

T5 SSAT JV LONG-TERM LEASE (CONT'D.)

ARTICLE	LEASE TERM
Phase 1 Plus – Option to Expand	In lieu of Phase 2 Expansion, Lessee must exercise its Phase 1 Plus Option to Expand by written notice to Lessor no later than 6/30/2023, with a Commencement Date on, or by written mutual agreement before, 1/1/2024; Phase 1 Plus ~85 acres rentable area, including Preferential Use North Berth (~1420' X ~185') as outlined in Exhibit A-PHASE 1 PLUS, at the then-current blended rate per acre per year; Under Phase 1 Plus, preferential use of the second berth is NOT included
Term	Commencement 4/1/2019 for 32 years with two 5-year extension options each by mutual agreement
Basic Rent	Blended average of rentable area at \$150,000 per acre per year +LET, beginning 1/1/2021 or upon substantial completion of Phase 1 Lessor Improvements (including but not limited to North Berth)
Escalation	Annual minimum increase of 2%, or fifty percent (50%) of the Consumer Price Index, but not to exceed 5% in any year
Security Deposit	12 months' Rent, Preferential Use Fee, plus Washington State Leasehold Excise Tax (currently 12.84%)
Permitted Use	Lessee: International and domestic marine container and cargo terminal operations; Lessor: Use of the Premises as required to support future additional terminal development and or other interim third-party marine terminal users



Key Elements of Draft Term Sheet

T5 SSAT JV LONG-TERM LEASE (CONT'D.)

ARTICLE	LEASE TERM
Cranes	All cranes are Lessee sourced, funded, owned and maintained; Phase 1: 4 new cranes capable of working fully profiled 18K TEU vessels required on Premises by the latter of 1/1/2021 or 60 days following Lessor's Substantial Completion of North dock; Phase 2: 4 additional new cranes on Premises by the latter of 1/1/2024 or 60 days following Lessor's Substantial Completion of the South dock
Cargo Handling Equipment	Lessee sourced, owned and maintained; Tier 4i environmental standard
Maintenance	Lessee responsible for all maintenance and repairs except dock structural piling and sheet pile seawall, and Subsidence per Lease
Premises Security	Lessee provided at Lessee cost, including guards, cameras, fencing and related security services and infrastructure; Lessee to accommodate Lessor's Permitted Uses



Key Elements of Draft Term Sheet

T5 SSAT JV LONG-TERM LEASE (CONT'D.)

ARTICLE	LEASE TERM
Alterations & Improvements	Lessor will upgrade the T5 North Berth to SPPM STS Crane standards in Phase 1 Alterations by 12/31/2020, the South Berth in Phase 2 Alterations by 12/31/2023, and dredge to -55 feet MLLW by 2/15/2023; Lessee will design, construct and pay for all pavement related improvements; Lessee will install and upon completion Lessor will reimburse Lessee for cost of stormwater treatment improvements (see stormwater, below); Reefers – Lessor will provide power to a single designated demarcation point in proximity to Lessee’s designated reefer area; Phase 2 – Lessee will construct at its cost additional wheeled and racked reefer stalls; Phase 1 Plus – Lessor will reimburse Lessee the cost of up to 640 wheeled reefer stalls (est. \$9 million); Lessee is responsible for paving



Key Elements of Draft Term Sheet

T5 SSAT JV LONG-TERM LEASE (CONT'D.)

ARTICLE	LEASE TERM
Stormwater	Permit held by Lessee; Lessor indemnifies Lessee for stormwater issues prior to Phase 1 Commencement Date; Lessee indemnifies Lessor for stormwater issues after Phase 1 Commencement Date; Lessee is responsible for design of stormwater treatment systems; Lessor is responsible for the cost and Lessee is responsible for the design and construction of stormwater treatment systems for the entire ~185 acre terminal, including the Intermodal Yard as follows: the North half of the Terminal is to be completed by Lessee prior to 1/1/2021 and the South half of the Terminal prior to 1/1/2024; stormwater improvements are projected to cost a total of \$30M, if the projected cost of Lessee's design is in excess of \$30 million, the parties will discuss and agree to a budget in advance of construction; Lessee is responsible for permit compliance activities, mandatory and necessary BMPs and treatment system maintenance; Lessor will be responsible for any stormwater system modifications should stormwater management regulations change requiring mandatory system changes; Lessee will continuously be responsible for all BMPs throughout lease term



Key Elements of Draft Term Sheet

T5 SSAT JV LONG-TERM LEASE (CONT'D.)

ARTICLE	LEASE TERM
Insurance	Marine General Liability \$5/10M; Business Auto \$2M; Pollution \$2M; Property at replacement cost basis Employers Liability \$3M; Builders Risk during any Tenant Improvement construction Protection & Indemnity Liability \$2M; POS and NWSA as Additional Insureds on all policies
T-5 Administration Building	Lessee may occupy up to 50% of the non-common area of the T-5 Admin building during Phase 1 and Phase 1 Plus, including 50% of the admin parking at the then current Blended Rate; Lessee will occupy 100% of the admin building and 100% of the admin parking if Lessee exercises Phase 2 at the then current Blended Rate; See Exhibit X-Z (Phase 2)
Radiation Portal Monitors	Lessee is responsible for the sourcing and installation of CBP booths, Lessor is responsible for power to booths; The parties, in partnership with CBP to determine how to handle Radiation Portal Monitors (RPMs)
Environmental Provisions	As per T5 Dept. of Ecology Consent Decree and Agreed Order specifics and standard boilerplate; Lessee indemnified for 1/1/2019 pre-existing conditions
Reefer Plugs/Racks	Lessee is responsible for the cost of maintaining and operating all existing reefer plugs as of Commencement Date in Phase 1
Noise, Air, Gate Management	Lessee shall comply with all regulations relating to its terminal operations including stormwater, noise, gate management and air quality



T5 Terminal Layout

PHASE 1

TERMINAL 5 LEASE AREAS SSAT JOINT VENTURE - PHASE 1



EXHIBIT A1

02/22/2019

LEASEHOLD ACRES	PREFERENTIAL USE ACRES	COMMON USE ACRES	TOTAL ACRES	RENTABLE ACRES (COMMON ACRES @ 50%)
52.8	8.8	6.8	68.4	65.0

T5 Terminal Layout

PHASE 2

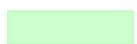
TERMINAL 5 LEASE AREAS SSAT JOINT VENTURE - PHASE 2



SCALE: 1"=200'



LEASEHOLD
USE AREA
141.3 ACRES



PREFERENTIAL
USE AREA
17.6 ACRES



= POS TERMINAL 5 BOUNDARY

EXHIBIT A2

02/22/2019

LEASEHOLD ACRES	PREFERENTIAL USE ACRES	COMMON USE ACRES	TOTAL ACRES	RENTABLE ACRES
141.3	17.6	0	158.9	158.9

T5 Terminal Layout

PHASE 1 PLUS

TERMINAL 5 LEASE AREAS SSAT JOINT VENTURE - PHASE 1 PLUS



Key Elements of Draft Term Sheet

T46 TTI LEASE TERMINATION

ARTICLE	PROPOSED TERMS
Premises	Terminal 46
Term	Lessee may terminate the Lease upon 30-day prior notification to the Lessor, but in any case, the Lease shall not terminate later than 12/31/2019 (the “Termination Date”). The Lease Termination Agreement is conditioned the concurrent signing of the SSAT joint venture entering into a 30-year lease agreement for Terminal 5 no later than April 1, 2019.
Payment	Lessee will continue to pay all rents due under the Lease through the Termination Date. Note: Upon the Terminal 46 lease Termination Date but no later than 12/31/2019, the SSAT joint venture shall pay a monthly Termination Payment (equal to the monthly rents) as agreed to in the Terminal 5 Long-Term Lease.



Key Elements of Draft Term Sheet

T46 TTI LEASE TERMINATION

ARTICLE	PROPOSED TERMS
Cranes	<p>The five (5) cranes on the Premises owned by the Lessee shall be removed at Lessee's sole cost and expense. The cranes may remain on Premises after the Termination Date up through June 30, 2020 (the "Crane Grace Period") for the purposes of removal from the Premises. Effective October 1, 2019 Lessor shall have the first right of refusal to purchase any unsold cranes for the consideration of \$1.00 and provide Lessee written notification of its intent to purchase no later than 90-days prior to the end of the Crane Grace Period; and Lessee shall provide 30-days prior written notification to Lessor of its intent to remove any crane prior to the end of the Crane Grace Period. For any cranes remaining on the Premises after the Crane Grace Period a penalty of \$5K per day per crane will be charged for the first thirty (30) days and shall increase to \$10K per day per crane thereafter. Lessee shall continue to provide the following on each crane up until a crane is removed or sold to the NWSA: (i.) insurance coverage and indemnification; (ii.) Maintenance to maintain annual certification for maritime cargo handling service; and (iii.) A Corporate Guaranty for the cost of removal of the cranes should Lessee default on the removal and the Lessor is forced to remove.</p>



Key Elements of Draft Term Sheet

T46 TTI LEASE TERMINATION

ARTICLE	PROPOSED TERMS
Settlement Litigation	The NWSA and TTI to mutually work together to settle lawsuit with Puget Sound Keeper Alliance currently under litigation.
Rent Reimbursement for Dock Repair Project	Major infrastructural dock repairs occurring at Terminal 46 started early 2018 through 2019. The Lessor has agreed to provide Lessee monthly rent reimbursements for impacted area(s) affecting business operations, and will continue these monthly reimbursements until Lessee vacates, but not past the Termination Date.



Key Elements of Draft Term Sheet

T18 SSAT LEASE AMENDMENT

ARTICLE	PROPOSED CHANGES
Rent	Rent, subsection (b) of the Sixth Amendment to the T18 Lease is modified to acknowledge the parties agree that the T46, TTI lease termination (the “T4 Documentation”) shall not result in a Market Rate Adjustment as provided in subsection (f); Furthermore, the parties agree that any future new lease shall only apply toward a T46 Documentation Market Rate Adjustment, should that new lease be for an international container terminal use; No other new lease shall be applicable to a T46 Documentation Market Rate Adjustment
Intermodal Yard Facility Charges	The NWSA will waive its portion of the IY Facility charges assessed on each Intermodal Lift referenced in the Sixth Amendment to the T18 Lease, Section 4.2 (Rent), subsection (1), from 1/1/2019 – 8/2/2039; In the event the parties do not reach an agreement on a long-term lease for T5 by 3/31/2019, the IY Facility Charges will be reinstituted effective 4/1/2019



Key Elements of Draft Term Sheet

T18 SSAT LEASE AMENDMENT

ARTICLE	PROPOSED CHANGES
Most Favored Nation	Most Favored Nation (MFN), is hereby deleted in its entirety
Maintenance	The parties agree to resolve the issue of certain terminal maintenance and repairs required on the terminal, by agreeing to split the repair cost for the asphalt and subsurface repairs in the transition area between the Terminal 18 Dock Apron and the Container Yard by sharing the estimated cost of \$1.2 million equally. The NWSA will complete the work and will have their share of the cost capped at \$600,000.



Key Cash Flow Assumptions

- Total program cost for T5 is \$340M
- Lessee pays \$150k/acre/year beginning 1/1/2021
- T5 is leased as international container terminal on approx. 159 acres



Projected Cash Flow

