

Item No.: 9C_Supp

Date of Meeting: February 1, 2022



**THE NORTHWEST
SEAPORT ALLIANCE**
Gateway to Solutions

Terminal 103 – Northwest Aggregates Term Lease Second Reading

Presenter: Jennifer Maietta
Director, NWSA Real Estate

Action Requested

Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to execute a new lease agreement with Northwest Aggregates Company at Terminal 103.

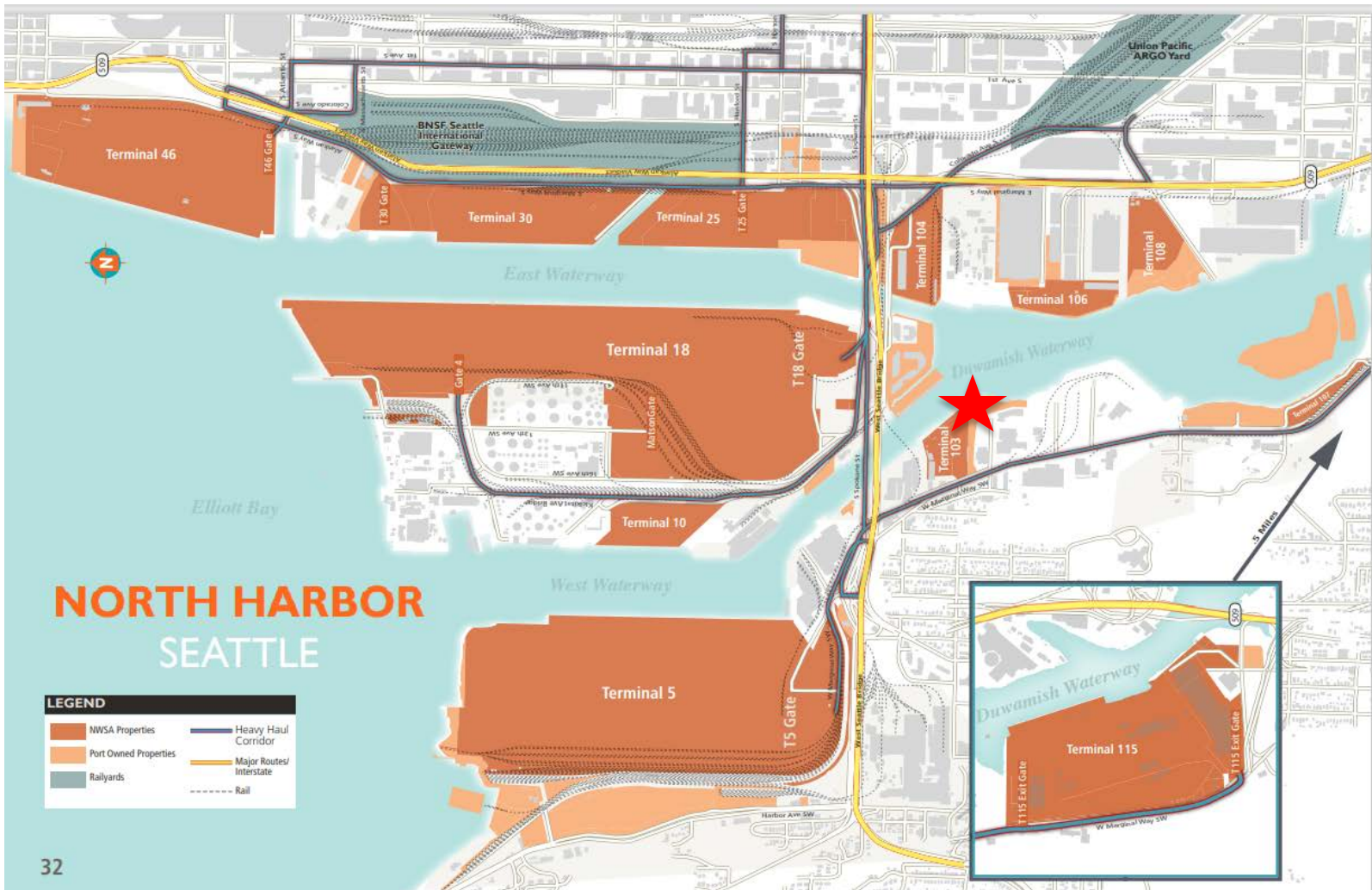


Summary

- Northwest Aggregates Company (NWAC) wishes to enter into a term lease with the NWSA with the understanding that the aquatic lands adjacent to the terminal will be incorporated into the Port Management Agreement at which time will be included as part of their lease premises.
- The NWAC lease continued on holdover while negotiations related to the aquatic lands were resolved so that both the NWAC lease and General Construction Company (GCC) lease, who share the terminal, could be co-terminus in an effort to keep the property whole for potential future uses.



Site Plan



Site Plan



Terminal 103



Background

- Port of Seattle (POS) purchased Terminal 103 (T-103) from Fletcher General in June 1997, which included leases with both NWAC and GCC.
- NWAC provides crushed aggregates via barge to its customers and is a water-dependent maritime business.
- This 1997 purchase did not include the Aquatic lands, nor the dock structure located within the Aquatic lands currently used by GCC.
 - No historical or municipal record of who installed the dock
 - DNR is requiring the POS to take responsibility for the dock through the incorporation of the Aquatic lands by amendment to the PMA.
- Both tenants are dependent upon access the Aquatic lands adjacent to the uplands for their business operations and both leases have continued on holdover status while the negotiations of the Aquatic lands for incorporation into the PMA is completed.

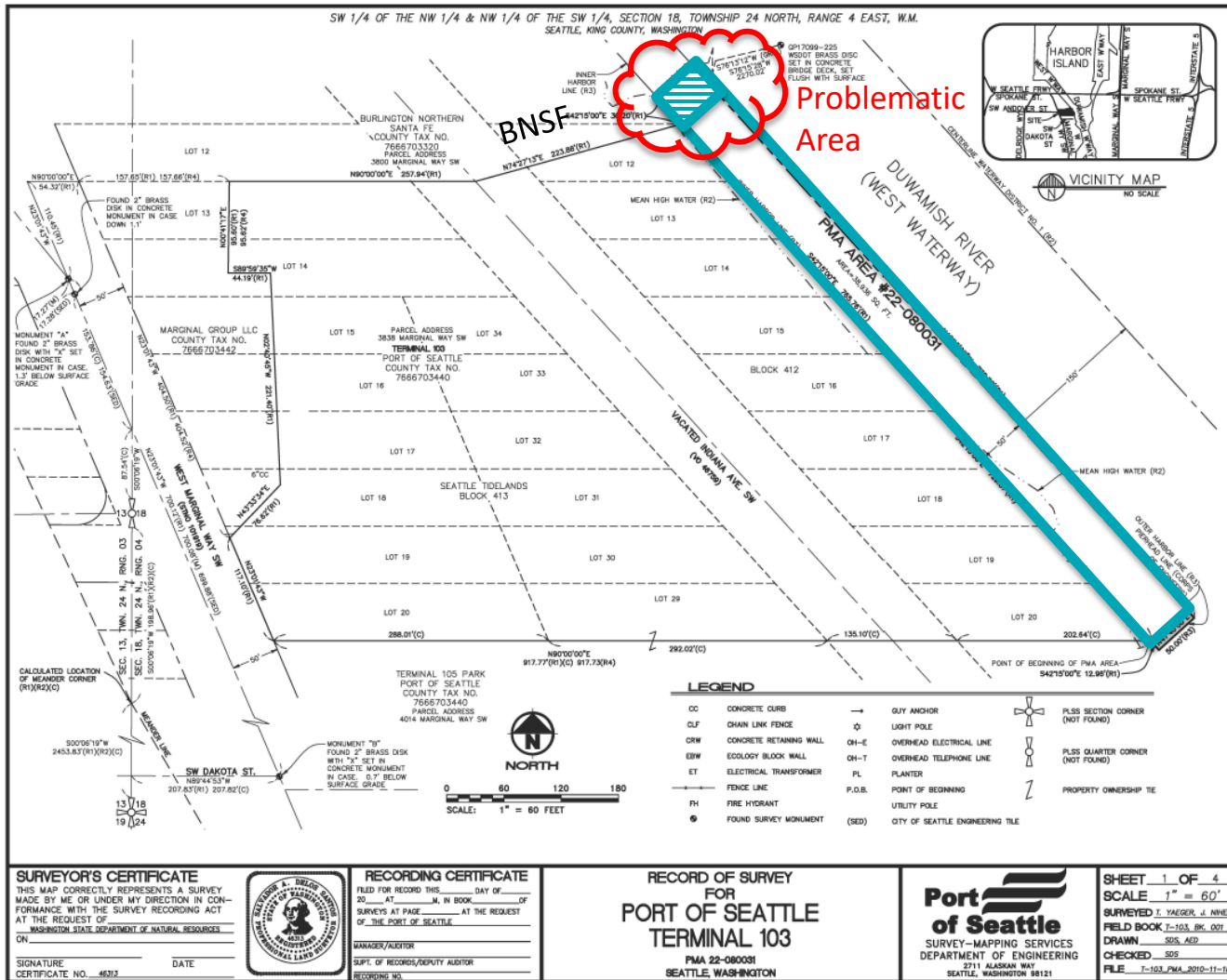


Background

- Historically, POS negotiations for incorporation of the Aquatic lands with DNR commenced in 2011 with the intent of making both the NWAC and GCC leases co-terminus.
- Negotiations to incorporate the Aquatic lands into the PMA have proven to be problematic primarily due to the dock structure.
 - In 2012 the base terms for the draft amendment to the PMA were agreed upon except for formalizing the site plan with DNR.
 - Approximately forty feet of the dock extends northward past the T-103 adjacent uplands and adjacent to the BNSF right of way.
 - A recent site visit was conducted to come to an agreeable resolution where GCC will remove the metal platform that extends into the BNSF right of way.



Aquatic Lands Initially Proposed



Background

- The NWAC lease has continued in holdover status as of November 2016 at the then current rate, while resolving issues with DNR as agreed upon by the parties which has continued through the transition into the NWSA. The current rental rate is \$.13 psf/mo.
- An appraisal was conducted in 2019, which appraised the T-103 NWAC portion of the property to have a fair market rental value of \$.25 to \$.28 psf/mo. Since the appraisal impacts to the property have/will occur:
 - The West Seattle Bridge closure resulted in a change in traffic flow along W Marginal Way affecting the ingress and egress to this property.
 - Terminal 5 will be commencing operations in 2022 with additional traffic on West Marginal way is anticipated.
 - Other future potential impacts include the proposed addition of a bike lane along W Marginal Way.
 - With these impacts affecting the valuation of the property it was agreed that increasing the rent from \$.13 to \$.30 in one year would be burdensome and a step increase approach would be reasonable.



Background

- Upon incorporation of the Aquatic lands into the PMA, NWAC will be paying rent for the use of the Aquatic lands calculated in accordance WAC 332-30-123.
 - NWAC does not currently pay rent for the use of the Aquatic lands.
 - This will increase their monthly rental rate by an additional \$.03 per month for the aquatic lands to be increased by CPI annually.
 - This is equal to \$557.37 psf/mo for their portion of the Aquatic lands area (21,233 sf).
- For business planning purposes NWAC had initially requested that the initial lease term be five (5) years since they do not intend to make a major capital improvement, in instead of the 10-years required by GCC to amortize anticipated dock improvement costs.
 - However, during renegotiation of the rental rate NWAC accepted a 10-year term with a commencement date of January 1, 2022
 - Also, both the NWAC and GCC Leases upon 18-months' notice for a Major Capital Improvement Project the NWSA could terminate the leases.



REVISED LEASE TERMS

- **The following is added as a result of the First Reading of the Northwest Aggregates Lease held December 7, 2021 Managing Member Meeting.**
- Upon recommendation of the Managing Members, the step-increase rental rate presented during the First Reading was re-negotiated with NWAC as follows:
- Uplands Yard Rent increased to \$.29 psf/mo base (plus approximately \$.03 psf/mo for the aquatic lands) escalated annually by CPI vs. Step-increase lease.
- The proposed lease term is increased to a 10-year term from a 5-year term with the two 5-year options remaining unchanged.
- Lease commencement date is changed to January 1, 2022 from November 1, 2021.



Lease Terms

ITEM	TERMS
Premises	178,000 sf of Uplands Yard and 21,233 sf of Aquatic Lands
Term	10 -Years Commencing January 1, 2022; terminating December 31, 2031
Options to Extend	Lessee will have two (2) five (5) Year Options to extend at Lessor's discretion
Upland Yard Rent	\$.29 sf/mo equal to \$50,355.02 per/mo (\$604,260.24 per/yr) escalated annually by CPI-U.



Lease Terms

ITEM	TERMS
Aquatic Lands Rent	<p>Upon inclusion in the Port Management Agreement (PMA) with WA State Dept. of Natural Resources, the Aquatic Lands Rent will be calculated per WAC 332-30-123</p> <ul style="list-style-type: none">• Currently estimated to be \$\$1,858 per month.• Rent for the Aquatic Lands will be escalated by CPI-U each Nov. 1st through the Term of the Lease.
Market Rate Adjustment	<p>Rent for both the Upland Yard and Aquatic Lands will be adjusted to Fair Market Value prior to any Term Extension at Lessor discretion.</p>
Security Deposit	<ul style="list-style-type: none">• Lessee will provide a Security Deposit equal to 6 months Rent plus WA State Leasehold Excise Tax, initially \$340,923.• Security for the Aquatic Lands will be added after they are included in the PMA.



Lease Terms

ITEM	TERMS
Use of Premises	Lessee shall use the Premises for the sales, storage, transport, and offloading of rock, gravel, and sand, and administration and other legal uses related thereto. Lessor will not permit use of the adjacent parcels as a rock yard for the storage, offloading, or sale of rock, currently as conducted by Lessee.
Utilities & Taxes	Lessee is responsible for all utilities and taxes.
Alterations	<ul style="list-style-type: none">• Lessor is not responsible to make any Alterations.
Maintenance & Repair	<ul style="list-style-type: none">• Lessee is responsible for all maintenance and repair.• Lessor has no maintenance & repair responsibility.



Lease Terms

ITEM	TERMS
Insurance:	<p>Lessee will provide proof of all insurance in compliance with NWSA Risk Management policy.</p> <ul style="list-style-type: none">• \$5M General Liability• \$3M Business Auto• \$5M Protection and Indemnity
Major Capital Improvement	<ul style="list-style-type: none">• Lessor may terminate the Lease upon 18-months' notice for a Major Capital Improvement Project. (Consistent with GCC Lease)
Stormwater	<p>Lessee is responsible for all Stormwater Management issues</p>



Financial Implications

The value of the renegotiated lease terms is:

- The re-negotiated value of revenue over 10 years is \$4.8M NPV including the combined rent for the uplands and Aquatic Lands. If both 10-year options are exercised, for a total term of 20 years, the value of that revenue is \$7.6M NPV.

For comparison between the renegotiate rent vs the initial proposed rent:

- First 5-Years: \$3.2M (vs \$2.8M) = \$900K NPV increase
- First 15 Years: \$6.4M (vs \$5.9M) = \$500K NPV increase
- Total Term: \$7.6M/20-yrs (vs. \$5.9M/15-yrs) = \$1.7M increase



Recommended Action

Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to execute a new lease agreement with Northwest Aggregates Company at Terminal 103.

