

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5A
Date of Meeting January 14, 2020

DATE: December 19, 2019

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Tong Zhu, Chief Commercial and Strategy Officer

Project Manager: Andre Elmaleh, Sr. Manager, Business Development

SUBJECT: Auto Warehousing Co. Lease and Operating Agreement 7th Amendment

A. ACTION REQUESTED

Request Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to enter into the 7th Amendment to the Lease and Operating Agreement with Auto Warehousing Co. (AWC)

B. SYNOPSIS

AWC is a lessee of the NWSA and provides finished vehicle handling services for automobile manufacturers and third-party logistics providers (3PLs) such as GLOVIS America (GLOVIS). To service the space needs of GLOVIS, the Port of Tacoma and AWC entered into the 3rd Amendment of the Lease and Operating Agreement. This amendment had a term of five (5) years and is now set to expire on January 31, 2020.

Staff has been working on a new five-year agreement for Managing Member consideration, however, due to a change in leadership at GLOVIS, they have requested a delay to review this and other projects they are working on before moving forward with a new long term amendment.

C. BACKGROUND

Beginning with the Tacoma port in 1979, AWC grew to become one of the largest auto processors in the country. In addition to ports, AWC also services vehicles at plant and rail locations around the US and Canada. The primary value-added

services AWC provides include, receipt of vehicles from Auto Manufactures and 3PLs, storage, accessory installation, and release to either a rail or truck provider.

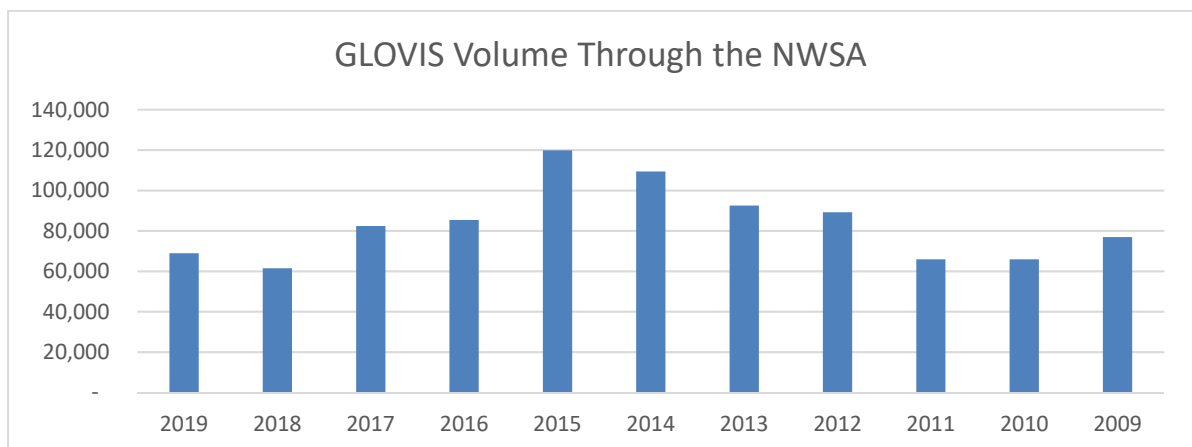
To service the GLOVIS business, AWC hires approximately 80 full-time staff members, in addition to the Longshore and other jobs created.

In 1995, KIA began importing vehicles through our gateway. In 1998, Hyundai Motors acquired a controlling interest in KIA forming the Hyundai Auto Group. As part of this group GLOVIS was created in 2003 to handle the logistics of moving vehicles from manufacturing centers to dealer delivery.

Through November 2019, GLOVIS has imported over 1.7M vehicles through our gateway. Tacoma is KIA's oldest and arguably most important port of entry into the United States as is the Portland facility to Hyundai. As such, they have reviewed plans for port consolidation but did not find any practicality to implementation, electing to keep each brand separate at their respective PNW ports. This contrasts with every other port location in the country where GLOVIS operates, which experienced port consolidation.

The NWSA, GLOVIS and AWC have held several meetings both together and in pairs since October 2018 to negotiate a new five-year agreement. During this time, GLOVIS made the aforementioned leadership changes which has resulted in their request to delay action on new agreements until new personnel can be brought up to speed. This delay necessitates the request for a month-to-month extension of the AWC LOA 3rd Amendment.

In 2020, GLOVIS is predicting a 9% volume increase over 2019 to 75,000 vehicles through the NWSA.



In 2016, KIA opened a North American factory in Nuevo Leon Mexico. As this factory ramped up, volume imported through the NWSA was reduced. However, as KIA has

introduced new models, volume is picking up. This follows the same trend which occurred when their first North American factory in West Point GA. opened in late 2009.

D. FINANCIAL IMPLICATIONS

The 2020 budget includes revenue of \$9.1 million from the NWSA Auto Line of Business that produces income of approximately \$6 million before depreciation. The GLOVIS business accounts for a significant portion of this income.

E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

- **No Action Alternative:** If the NWSA does nothing and the 3rd Amendment expires, then continuing to operate under those terms would be in violation of the NWSA Master Policy. This will put at risk in both the short and long term the retention of the GLOVIS business through our gateway. Additionally, we will not have a mechanism to assess and collect the onsite storage fees managed by AWC.
- **Recommended Action:** Allow the CEO or delegate to enter into the 7th Amendment to Auto Warehousing Co.'s Lease and Operating Agreement which will carry forward the current terms of the 3rd Amendment on a month-to-month basis to provide the space and billing needs related to the GLOVIS business.

F. ATTACHMENTS TO THIS REQUEST

- Computer slide presentation.

G. PREVIOUS ACTIONS OR BRIEFINGS

- December 19, 2019: AWC 6th Amendment
- December 15, 2017: AWC 5th Amendment
- November 3, 2016: AWC 4th Amendment
- December 18, 2014: AWC 3rd Amendment
- July 8, 2011: AWC 2nd Amendment
- June 17, 2011: AWC 1st Amendment
- December 5, 2002: AWC Lease and Operating Agreement



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Auto Warehousing Co. Lease and Operating Agreement 7th Amendment

Andre Elmaleh
Sr. Manager, Business Development

Action Requested

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Background

- In 2015, the NWSA and AWC entered into an amendment to accommodate additional property needs as well as on site storage billing procedures. These provisions are set to expire at the end of January 2020.
- In the middle of 2019, GLOVIS had a change in leadership. Due to this change, they have asked for a 6-month delay to bring the new personnel up to speed before moving forward with a new 5-year agreement.
- This Amendment authorizes the terms of the Third Amendment to continue on a month-to-month basis while GLOVIS finishes their review. Staff anticipates coming before the Managing Members at the June meeting to present new 5-year agreements with AWC and GLOVIS for consideration.

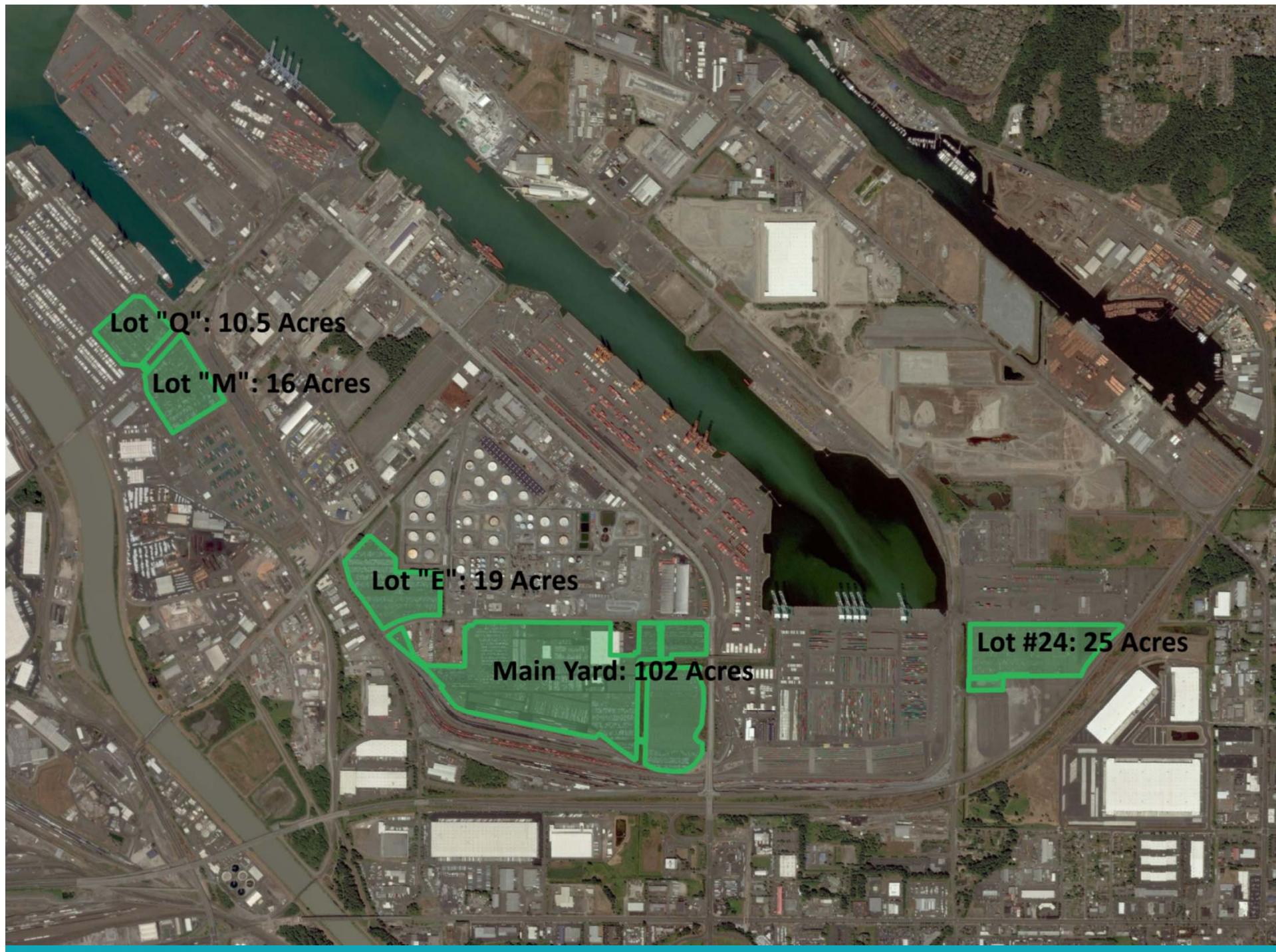
Background Cont'd

- Headquartered in Tacoma, AWC is one of the nations largest Automobile processors.
- Finished Vehicle Handling Includes, the Receipt, Storage, accessory installation and Release of new vehicles for Automobile Manufacturers
- GLOVIS America/KIA Motors America have been a joint customer of the NWSA and AWC since 1995



7th Amendment Key Terms

- **The Key terms of this Amendment include the following:**
 - Facility Size: Base Acreage Increase from 144 to 165
 - Use of Container Terminal Property for auto parking: NWSA hires a Longshore Clerk when AWC is moving vehicles from Lot “Q” to their main yard.
 - Billing Services: Allows AWC to invoice the various Auto Manufacturers on the NWSA’s behalf for On Site Storage fees as described in the NWSA Terminals Tariff NO.300 (item #: 260.610).



Financial Implications

- The 2020 budget includes revenue of \$9.1 million from the NWSA auto line of business that produces income of approximately \$6 million before depreciation. The GLOVIS business accounts for a significant portion of this income.



Alternatives Considered and Their Implications

- **No Action Alternative:** If the NWSA does nothing and the 3rd Amendment expires, then to continue to operate under those terms would be in violation of the NWSA Master Policy. This will put at risk in both the short and long term the retention of the GLOVIS business through our gateway. Additionally, we will not have a mechanism to assess and collect the onsite storage fees managed by AWC.
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