

**THE NORTHWEST SEAPORT ALLIANCE**  
**MEMORANDUM**

**MANAGING MEMBERS**  
**ACTION ITEM**

**Item No.** 4B  
**Date of Meeting** December 4, 2018

**DATE:** November 19, 2018

**TO:** Managing Members

**FROM:** John Wolfe, CEO

**Sponsor:** Tong Zhu, Chief Commercial Officer & Chief Strategy Officer  
**Project Manager:** Scott Francis, Director, Real Estate – Port of Tacoma

**SUBJECT:** US Customs and Border Patrol Office Lease

**A. ACTION REQUESTED**

Request Managing Members of the Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or his delegate to 1) enter into a 10-year lease with Harsch Investment Properties, LLC for approximately 14,400 square feet of office space and approximately 5,000 square feet of secured parking area located at 4813 Pacific Highway East, Fife, WA, and 2) execute related purchases and service agreements not to exceed \$750,000 necessary to purchase office furniture, data services, and a phone system for use at the leased premises.

**B. SYNOPSIS**

Federal law mandates Customs Border Patrol (CBP) to inspect all merchandise entering the United States from foreign territory. Thus, CBP's efficient inspection services are integral to the efficient movement of foreign cargoes entering the country through NWSA terminals. All ports of entry must provide suitable office and workspace to CBP. Existing facilities may continue to be operated even though they are not in compliance. However, requirements must be met if any changes are made to a seaport operation or when new seaport facilities are created. CBP exercised this requirement when the NWSA implemented the Straddle Carrier Portal project at the Pierce County Terminal (PCT).

**C. BACKGROUND**

1. Since 1985 the Port of Tacoma has provided CBP office space at the Port of Tacoma owned building located at 2202 Port of Tacoma Road. This facility is functionally obsolete, has a 5-year life expectancy without major capital improvements and generally does not meet CPB's standards.

2. The Pierce County Terminal (PCT) was in competition for the only available (nationwide) straddle portal monitors. Since PCT is a straddle terminal, these monitors are necessary to maintain the efficient movement of cargo through PCT.
3. The implementation of the straddle monitor system at PCT constituted an operation change that triggered CBP to exercise a Title 19, Code of Federal Regulations requirement for a Port Authority to provide free space, including suitable office and workspace to CBP.
4. CBP required approval of a Free Space Agreement before they would install the \$19M portal monitor at the Port of Tacoma.
5. NWSA and CBP approved a Memorandum of Understanding whereby the NWSA agreed to provide facilities for CBP personnel that meet their standards. CBT in turn released the Straddle Carrier Portals that are currently installed and operational at PCT.

#### **D. FINANCIAL IMPLICATIONS**

##### ***Source of Funds***

The 2019 NWSA Capital Improvement Plan Budget allocates \$2,850,000 for this project. The 2019 NWSA Operating Budget includes \$150,000 for six-months rent and related operating expenses.

##### ***Financial Impact***

Cash expenditure is estimated at \$2,067,000 with contingencies.

Initial annual Lease with operating expenses is estimated at \$300,000/yr.

#### **E. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS**

1. **No Action Alternative:** Remodeling the current location at 2202 Port of Tacoma Road and the Security Building at T.7.
  - This option does not meet all the CBP standards.
  - Delivery of this option is 1-2 years.
  - The initial capital expense is estimated at \$5,200,000.
  - NPV for a 20-year term is estimated at (\$6,889,000).

**2. No Action Alternative:** Build a new 15,000 sq. ft. office building on Port of Tacoma owned property.

- Delivery of this option is estimated at two years.
- The initial capital expense is estimated at \$12,500,000.
- NPV for a 20-year term is (\$11,233,000).

**3. Recommended Action:** Lease approximately 14,400 sq. ft. building at Fife Business Park.

- Delivery of this option is estimated at March 2019.
- CBP has approved this location and the preliminary design.
- The initial tenant improvement capital expense is estimated at \$2,067,000.
- NPV for 20-year term is (\$5,319,000).

**Lease Terms:**

- Premises: 14,400 SF of office space and 5,000 SF of secured yard.
- Use: general administrative office, laboratory space, and vehicle parking.
- Lease term: 10-years with four 5-year extensions available.
- Initial annual rent: \$198,000 (15,600/mo. office + \$900/mo. secured parking area)
- Initial annual NNN operating expenses: \$51,192
- Rent escalation: 3% per year on anniversary date.
- Rent adjustments: Market rent reset at extension periods.
- Security deposit: One month's rent plus operating expenses.
- Metered utilities and property tax: Lessee responsibility.
- Maintenance (roof, building shell, parking, common areas): Lessor responsibility.
- Maintenance (interior and TI's): Lessee responsibility.
- Rent commencement: At occupancy - estimated March 2019.
- Tenant Improvements: Lessor credit = \$504,000. Lessee responsible for all additional improvements (estimated at \$1,320,000 with contingencies).

**F. ENVIRONMENTAL IMPACTS / REVIEW**

No environmental impact.

**G. ATTACHMENTS TO THIS REQUEST**

Photo of building at 4813 Pacific Highway East, Fife, WA.

**H. PREVIOUS ACTIONS OR BRIEFINGS**

November 6, 2018 briefing in Executive Session.