

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No.	<u>4B</u>
Date of Meeting	<u>May 7, 2019</u>

DATE: April 26, 2019

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Don Esterbrook, Deputy CEO

Project Managers:

Tom Bellerud, Director, Container Business Development

Lou Paulsen, Director, Strategic Operations Projects & Risk Management

SUBJECT: **Fifth Amendment to the Husky Terminal And Stevedoring Lease and Operating Agreement**

A. ACTION REQUESTED

Request the Managing Members of The Northwest Seaport Alliance (NWSA) authorize the Chief Executive Officer or his delegate to execute the Fifth Amendment to the Husky Terminal And Stevedoring Lease and Operating Agreement.

B. SYNOPSIS

Husky Terminal and Stevedoring (Husky) leases Terminal 3 & 4 in the South Harbor. This proposed action will expand Husky's leased premises by approximately 33% and, by this action, Husky will construct various improvements to its leased premises beginning in June of 2019. Initial improvements will be completed by October 2019 and Husky will establish an off-dock gate at Lot F by early 2020.

C. BACKGROUND

The Northwest Seaport Alliance (NWSA) Strategic Business Plan (Goal 1A1) identifies the need to enhance our gateway's competitive position by improving licensed terminal assets to meet market demands, increasing container throughput and responding to industry changes. To accomplish this Goal, the Managing Members authorized several successive actions as a part of the broad, multi-phased, General Central Peninsula Redevelopment program in the South Harbor.

This program resulted in the delivery of a modern, approximately 3,000 linear foot, pier and eight (8) new Super Post Panamax container gantry cranes with the supporting buildings and electrical infrastructure to enable the simultaneous handling of two 18,000 TEU vessels.

Among the prior actions referenced above, on April 7, 2016, the Managing Members authorized the CEO to sign the Third Amendment to the Lease and Operating Agreement between the NWSA and Husky. The Third Amendment provided the following:

- 1) Effective September 1, 2018, the container terminal lease rate increased from \$91,325 per acre per year to \$110,000 per acre per year.
- 2) Intermodal Minimum Volume Guarantees (MAGs) were increased from 120,000 container lifts per year to 180,000 container lifts per year for the period of September 1, 2018 through August 31, 2023.
- 3) The NWSA committed an estimated \$120,000,000 to reconstruct Pier 4 to provide a 2,960-foot contiguous pier. The new pier was delivered to Husky in April of 2018.
- 4) The NWSA committed up to \$14,000,000 to design, permit and construct two additional improvements to the leased premises, specifically a new gate complex and upgrades to the container yard.

The Fourth Amendment to the Husky Terminal And Stevedoring Lease and Operating Agreement, executed in March of 2018, implemented the Clean Truck Program.

D. FIFTH AMENDMENT SUMMARY

The Fifth Amendment, which is the subject of this request, modifies provisions of the previously authorized Third Amendment which were not otherwise executed. No new commitment of NWSA funds is requested.

Term: The effective date of the lease amendment shall be June 1, 2019 with an expiration date of August 31, 2046.

Premises and Rents: Husky's existing 89-acre premises will be expanded as follows:

- 1) 1.8-acre expansion of the existing container yard at a rate of \$110,000 per acre per year with rents commencing September 1, 2019.

- 2) 20.9 acres on the East Sitcum Terminal as backland terminal acreage at a rate of \$72,500 per acre per year with rents commencing January 1, 2020.
- 3) 6.25 acres at Lot F (for the new gate complex) at a rate of \$54,000 per acre per year commencing January 1, 2020.

All acreage amounts are subject to confirmation by survey.

Rent Escalations: CPI-U adjustments each September 1st with minimum of 1% and a maximum of 5% annually consistent with the Third Amendment.

Alterations & Improvements: Under the Fifth Amendment, Husky assumes responsibility for permitting and constructing the container yard and gate improvements (as provided under the existing Tenant Improvement program) and the NWSA will release to Husky the remainder of the NWSA's previously authorized \$14,000,000 in reimbursement of reasonable construction-related costs. Any costs for improvements in excess of \$14,000,000 will be borne by Husky.

Operational Improvements: The capability of Terminal 3 & 4 will be increased by this action. In 2018, Husky handled approximately 620,000 TEUs. Through the expansion of acreage and the improvements to be accomplished by Husky under the Fifth Amendment, Husky projects its throughput capability will be increased to more than 800,000 TEUs per year. In addition, under the Tenant Improvement program, the NWSA will require that the Lot F gate complex provide an adequate number of gate lanes and truck queuing space, support data collection relative to truck turn times, provide truck drivers with adequate restroom facilities and allow for future expansion capabilities.

Cargo Handling Equipment: Husky, at its cost, will supply Tier 4 yard equipment. Since execution of the Third Amendment in 2016, Husky has made several investments to include equipment purchases in the following number and type:

- 21 Pick-up trucks
- Five (5) rubber-tired gantry cranes, with EPA Tier 4 engines
- 25 yard tractors, with EPA Tier 4 engines
- Eight (8) top-pick container handlers, with EPA Tier 4 engines

These and related purchases represent more than \$19,000,000 in investments by Husky Terminal And Stevedoring.

Stormwater: Husky will be responsible for performing all related Best Management Practices within its premises. In addition, Husky will hold the Industrial General Stormwater Permits, where applicable.

Maintenance and Repair: There are no changes from the current Master Lease Agreement.

E. FINANCIAL IMPLICATIONS

Financial Impact: This amendment does not materially impact the modeled financial results for the overall terminal agreement. The approximate payback period is 10 years and the modeled rate of return meets or exceeds the targeted rate of return for the NWSA.

F. ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS

Alternative: Take no action. Do not increase the acreage associated with the leased premises nor release the previously authorized \$14,000,000 to improve the terminal capability. NWSA staff does not recommend this alternative.

Recommended Action: Authorize the Chief Executive Officer or his delegate to execute the Fifth Amendment to the Husky Terminal And Stevedoring Lease and Operating Agreement.

G. ATTACHMENT TO THIS REQUEST

- PowerPoint presentation.

H. PREVIOUS ACTIONS OR BRIEFINGS

The Managing Members' approval of the Third Amendment to the Husky Terminal And Stevedoring Lease and Operating Agreement on April 7, 2016.

A Terminals 3 & 4 Gate Complex and Backlands Reconfiguration project update memorandum dated February 27, 2017.

A public briefing on September 5, 2017 regarding the Terminals 3 & 4 Gate Complex and Backlands Reconfiguration project with a related memorandum dated August 28, 2017.