

THE NORTHWEST SEAPORT ALLIANCE
MEMORANDUM

MANAGING MEMBERS
ACTION ITEM

Item No. 5A
Date of Meeting October 6, 2020

DATE: September 22, 2020

TO: Managing Members

FROM: John Wolfe, CEO

Sponsor: Don Esterbrook, Deputy CEO

Project Managers: Curt Stoner, Sr. Manager Real Estate
Tom Bellerud, Director Business Development

SUBJECT: South Intermodal Yard (SIM) Lease Third Amendment
Tacoma Rail Operating Agreement First Amendment
Amended & Restated Union Pacific Railroad (UP) Lease Agreement
Amended & Restated Pacific Rail Services (PRS) Operating Contract

A. ACTION REQUESTED

Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to execute the 1) Third Amendment to the South Intermodal Yard Lease with Tacoma Public Utilities/City of Tacoma and 2) The First Amendment to the Port of Tacoma/City of Tacoma Department of Public Utilities Operating Agreement, and 3) Amended & Restated Lease Agreement with the Union Pacific Railroad, and 4) Amended & Restated Operating Contract with Pacific Rail Service.

Request Commissioners of the Port of Tacoma (POT) authorization for the Executive Director or their delegate to execute the 1) Third Amendment to the South Intermodal Yard Lease with Tacoma Public Utilities/City of Tacoma and 2) The First Amendment to the Port of Tacoma/City of Tacoma Department of Public Utilities Operating Agreement.

SYNOPSIS

- The Port of Tacoma/NWSA has operated the South Intermodal Yard (SIM) since it was first leased from Tacoma Public Utilities (TPU) in 1984. The lease allows for two each five-year extensions of which the first extension expired on August 31, 2020.

This action request is to exercise the second lease extension for the September 1, 2020 to August 31, 2025 period.

- The South Intermodal Yard is operated by the NWSA via its vendor Pacific Rail Services and supports the Union Pacific Railroad's (UPRR) domestic intermodal operations.
- SIM is capable of handling 150,000 annual lifts.
- UPRR provides daily 53' Domestic Stack Train Service to/from the PNW, Chicago, California, the Ohio Valley and the eastern United States.
- This operation provides 26 FTE jobs and had volumes of 55,596 rail lifts January to August 2020.

B. BACKGROUND

1) SIM LEASE THIRD AMENDMENT

In February 2020 the NWSA advised the City of Tacoma of its intent to exercise the South Intermodal Yard second lease extension option and the Parties subsequently negotiated the following rates and terms, subject to Managing Member and TPU Board approvals.

Key Terms –

The Lease Term will be extended for five years until August 31, 2025.

During this five (5) year term, the lease rate payable by the NWSA to TPU in any given year is predicated on the NWSA's selection from two available options. Under Option One, the Tacoma Rail Operating Agreement will be extended by one year and for each year in which the NWSA exercises this option, the lease rate for the SIM will be \$1,200 per year, plus the applicable CPI adjustment. If the NWSA wishes to forego a one-year extension to the Operating Agreement, then the Option Two monthly lease rate will apply. These two alternative lease rates are summarized as follows:

Rent Option One: \$1,200.00 annual rent plus CPI from the preceding year.

Rent Option Two: \$76,515.00 monthly rent plus CPI from the preceding year.

Under Option One, the NWSA commits that an amount equal to the differential savings (between the Option One and Option Two lease payments) will be used to incentivize rail cargo volume growth through the Tacoma Harbor and/or fund projects involving design, permitting and/or construction and/or maintenance of rail and/or rail-related infrastructure improvements in the Tacoma Harbor.

2) Tacoma Rail Operating Agreement First Amendment

The Port and Tacoma Rail entered into the Port of Tacoma/City of Tacoma Department of Public Utilities Operating Agreement dated July 1, 2013 with a 20-year term.

Key Terms –

Amendment No. 1 to the Port of Tacoma/City of Tacoma Department of Public Utilities Operating Agreement, as proposed, provides language clarifying the role of the NWSA and provides that for each year the NWSA selects Rent Option One (as described above), the term of the Operating Agreement will be extended by one year, provided that in no event will the Operating Agreement term be extended beyond 25 years from the Effective Date of the Operating Agreement.

3) Amended & Restated Union Pacific Lease Agreement

The Union Pacific Domestic rail operation has been operating at the SIM yard and leased container yard across Milwaukee Way since December 2008. Pacific Rail Services (PRS) has been the chosen vendor operator at the SIM handling this business during the entire lease period. UP domestic rail business typically handles 90,000 lifts each year. In 2019, UP domestic rail business handled 86,271 lifts.

Key Terms –

The proposed lease agreement is a 5-year term, beginning October 1, 2020 with an option for a 5-year mutually agreed extension. The agreement allows for Preferential Use of the SIM rail yard. The lease terms call for annual land lease CPI-U rate increases each February, beginning 2022, and calls for annual rate adjustments to the Facility Fee beginning 2021.

4) Amended & Restated PRS Operating Contract

The Amended & Restated Operating Contract with Pacific Rail Services (PRS) will follow the same term as the UP Lease, beginning October 1, 2020 and terminating on September 30, 2025. This Operating Contract also offers a 5-year extension, with mutual agreement.

Key Terms -

- a) PRS will pay \$50,000 annually to The NWSA to partially offset maintenance expenses.

- b) PRS will remove two old mobile office buildings and replace them with two modern mobile offices and will assume on-going maintenance of the buildings.
- c) The PRS contract has adopted the updated Environmental Conditions and Requirements Exhibit

5) **FINANCIAL IMPLICATIONS**

The lease and operating agreement with the Union Pacific are supported by the operating agreement with PRS, the NWSA/Port of Tacoma assets, and the lease of the SIM land from the City of Tacoma. The combined revenue offset by expenses provides a positive net income to the NWSA.

6) **ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS**

- **No Action Alternative:** Terminate the SIM Lease. This would potentially eliminate the UPRR domestic intermodal service in the South Harbor along with the direct and indirect jobs it supports.
- **Recommended Action:** Extend the SIM lease for an additional five years. Approve the Tacoma Rail Operating Agreement First Amendment. Approve the Amended & Restated Union Pacific Lease Agreement and approve the Amended & Restated Operating Contract with PRS.

7) **ENVIRONMENTAL IMPACTS / REVIEW**

There are no environmental impacts anticipated from extending the SIM lease.

8) **ATTACHMENTS TO THIS REQUEST**

- PowerPoint presentation.
- SIM Third Lease Amendment.
- Tacoma Rail Operating Agreement First Amendment.
- Amended & Restated Union Pacific Lease with associated Exhibits.
- Amended & Restated PRS Operating Contract with associated Exhibits.

9) **PREVIOUS ACTIONS OR BRIEFINGS**

FMC Session Briefing August 4, 2020

Item No.: 5A

Date of Meeting: October 6, 2020



**THE NORTHWEST
SEAPORT ALLIANCE**
Gateway to Solutions

South Intermodal Yard (SIM) Lease Third Amendment

Tacoma Rail Operating Agreement First Amendment

Amended & Restated Union Pacific Railroad (UP) Lease Agreement

Amended & Restated Pacific Rail Services (PRS) Operating Contract

**Presenters: Curt Stoner, Sr. Manager Real Estate
Tom Bellerud, Director Business Development**

Action Requested

Request Managing Members of The Northwest Seaport Alliance (NWSA) authorization for the Chief Executive Officer or their delegate to execute the:

- **Third Amendment to the South Intermodal Yard Lease with Tacoma Public Utilities/City of Tacoma;**
- **First Amendment to the Port of Tacoma/City of Tacoma Department of Public Utilities Operating Agreement;**
- **Amended & Restated Lease Agreement with the Union Pacific Railroad;**
- **Amended & Restated Operating Contract with Pacific Rail Service**



Action Requested

Request Commissioners of the Port of Tacoma (POT) authorization for the Executive Director or their delegate to execute the:

- **Third Amendment to the South Intermodal Yard Lease with Tacoma Public Utilities/City of Tacoma; and**
- **The First Amendment to the Port of Tacoma/City of Tacoma Department of Public Utilities Operating Agreement.**



Background

- **The Port of Tacoma/NWSA has operated the South Intermodal Yard (SIM) since it was first leased from Tacoma Public Utilities (TPU) in 1984. The lease allows for two each five-year extensions of which the first extension expired on August 31, 2020.**
- **This action request is to exercise the second lease extension for the September 1, 2020 to August 31, 2025 period.**
- **The South Intermodal Yard is operated by the NWSA via its vendor Pacific Rail Services and supports the Union Pacific Railroad's (UPRR) domestic intermodal operations.**
- **SIM is capable of handling 150,000 annual lifts.**
- **UPRR provides daily 53' Domestic Stack Train Service to/from the PNW, Chicago, California, the Ohio Valley and the eastern United States.**
- **This operation provides 26 FTE jobs and had volumes of 55,596 rail lifts January to August 2020.**



SIM Yard



Background

SIM LEASE THIRD AMENDMENT

- In February 2020, the NWSA advised the City of Tacoma of its intent to exercise the South Intermodal Yard second lease extension option.
- The Lease Term will be extended for five years until August 31, 2025.
- During this five (5) year term the lease rate is predicated on the NWSA's selection from two available options.
 - Under **Option One**, the Tacoma Rail Operating Agreement will be extended by one year and for each year in which the NWSA exercises this option, the lease rate for the SIM will be \$1,200 per year, plus the applicable CPI adjustment.
 - If the NWSA wishes to forego a one-year extension to the Operating Agreement, then the **Option Two** monthly lease rate will apply. These two alternative lease rates are summarized as follows:



Background

SIM LEASE THIRD AMENDMENT – Continued

- **Rent Option One: \$1,200.00 annual rent plus CPI from the preceding year.**
- **Rent Option Two: \$76,515.00 monthly rent plus CPI from the preceding year.**
- **Under Option One, the NWSA commits that an amount equal to the differential savings (between the Option One and Option Two lease payments) will be used to incentivize rail cargo volume growth through the Tacoma Harbor and/or fund projects involving design, permitting and/or construction and/or maintenance of rail and/or rail-related infrastructure improvements in the Tacoma Harbor.**



Background

Tacoma Rail Operating Agreement First Amendment

- **The Port and Tacoma Rail entered into the Port of Tacoma/City of Tacoma Department of Public Utilities Operating Agreement dated July 1, 2013 with a 20-year term.**
- **Amendment No. 1 to the Port of Tacoma/City of Tacoma Department of Public Utilities Operating Agreement, as proposed, provides language clarifying the role of the NWSA and provides that for each year the NWSA selects Rent Option One (as described above), the term of the Operating Agreement will be extended by one year, provided that in no event will the Operating Agreement term be extended beyond 25 years from the Effective Date of the Operating Agreement.**



Background

Amended & Restated Union Pacific Railroad Lease Agreement

- **The Union Pacific Domestic rail operation has been operating at the SIM yard and leased container yard across Milwaukee Way since December 2008.**
- **Pacific Rail Services (PRS) has been the chosen vendor operator at the SIM handling this business during the entire lease period.**
- **UP domestic rail business typically handles 90,000 lifts each year. In 2019, UP domestic rail business handled 86,271 lifts.**
- **The proposed lease agreement is a 5-year term, beginning October 1, 2020 with an option for a 5-year mutually agreed extension. The agreement allows for Preferential Use of the SIM rail yard. The lease terms call for annual land lease CPI-U rate increases each February, beginning 2022, and calls for annual rate adjustments to the Facility Fee beginning 2021.**



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Amended & Restated PRS Operating Contract

- **The Amended & Restated Operating Contract with Pacific Rail Services (PRS) will follow the same term as the UP Lease, beginning October 1, 2020 and terminating on September 30, 2025. This Operating Contract also offers a 5-year extension, with mutual agreement.**
- **PRS will pay \$50,000 annually to The NWSA to partially offset maintenance expenses.**
- **PRS will remove two old mobile office buildings and replace them with two modern mobile offices and will assume on-going maintenance of the buildings.**
- **The PRS contract has adopted the updated Environmental Conditions and Requirements Exhibit.**



Financial Implications

The lease and operating agreement with the Union Pacific is supported by the operating agreement with PRS, the NWSA/Port of Tacoma assets, and the lease of the SIM land from the City of Tacoma. The combined revenue offset by expenses provides a positive net income to the NWSA.



Alternatives Considered and Their Implications

- **No Action Alternative**: Terminate the SIM Lease. This would potentially eliminate the UPRR domestic intermodal service in the South Harbor along with the direct and indirect jobs it supports.
- **Recommended Action**: Extend the SIM lease for an additional five years. Approve the Tacoma Rail Operating Agreement First Amendment. Approve the Amended & Restated Union Pacific Lease Agreement and approve the Amended & Restated Operating Contract with PRS.



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