

PORT OF TACOMA COMMISSION
ACTION ITEM MEMO



Item No: 6F
Meeting Date: 5/23/2023

DATE: May 12, 2023
TO: Port of Tacoma Commission
FROM: Eric Johnson, Executive Director
Sponsor: Alisa Praskovich, Chief, Special Projects & Commission Relations
Project Manager: Gloria Fletcher, Sr. Manager, Real Estate & Econ. Development
SUBJECT: Lease Termination – 4012 SR509 N Frontage Road

A. ACTION REQUESTED

Authorization for the Executive Director or his designee to enter into a termination agreement for an existing lease with Progress Rail Services Corporation for the premises located at 4012 SR509 N Frontage Road, Tacoma, Washington, effective August 1, 2023.

B. BACKGROUND

In 1996, the Port of Tacoma entered into a lease (“Lease”) with Coast Engine and Equipment Corporation for the property located at 4012 SR509 N Frontage Road (“Premises”). The Lease has subsequently been amended several times to revise the Premises and adjust certain terms, including the termination date and rental rate. In 2009 the Port of Tacoma authorized the assignment of the Lease to Progress Rail Services Corporation (“Progress Rail”).

The current Premises consists of 13.98 acres, three major shop/warehouse buildings, a locomotive wash facility, appurtenant storage facilities and railroad infrastructure. The Premises has been used for fabrication, supply, repair, and maintenance of railroad locomotive and transit system parts and products. One of the major buildings is at the end of its economic life, as are most of the storage facilities.

The current rental rate is \$34,919 per month. Rent is adjusted with a fixed 7.5% increase every 3 years, with the next increase due on 1/1/2025.

During the term of the Lease, Progress Rail applied for and participated in the Washington State Department of Ecology’s Voluntary Cleanup Program to address potential hazardous substances on the premises. On December 2, 2022, a No Further Action letter was issued for the Premises.

Progress Rail now desires to terminate the Lease, and subsequent negotiations resulted in a termination agreement with the following substantive terms:

- Termination Date: August 1, 2023
- Termination Fee: \$1,700,000
- Progress Rail will not be released from its obligation to defend, hold harmless and indemnify Lessor under Paragraph 23(h) (Hazardous Substances – Hold Harmless and Indemnity) of the Lease.

The Termination Fee was established after considering the costs of re-tenanting the Premises, which includes demolishing the economically obsolescent buildings.

C. SCOPE OF WORK

If this requested action is approved, Port of Tacoma staff will complete the steps necessary to terminate the lease which will include evaluating the current condition of the Premises, working with Progress Rail to return the property in acceptable condition, executing and recording the final Termination Agreement.

D. TIMEFRAME/PROJECT SCHEDULE

Move-out Inspection	June 15, 2023
Execute Termination Agreement	July 1, 2023
Prepare Property for Market	July 1, 2023
Market Property for new tenants	August 1, 2023

E. FINANCIAL SUMMARY

The Termination Fee and anticipated revised rental income to be realized from this action are expected to mitigate the lost revenue from this lease termination.

F. ECONOMIC INVESTMENT / JOB CREATION

This property is zoned M2 (Heavy Industrial) and could accommodate a variety of industrial/manufacturing jobs. The current tenant no longer operates in the region and therefore terminating this lease will allow the Premises to be reactivated for local job creation.

G. ENVIRONMENTAL IMPACTS / REVIEW

The Termination Agreement contains terms and conditions requiring Progress Rail to continue to be liable for any environmental issues created during the term of the lease and No Further Action letter will be helpful to procure future tenants for the Premises.

H. NEXT STEPS

Upon approval of this request, Port Real Estate staff will move forward with terminating the Lease.