PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 6c

Date of Meeting December 15, 2009

DATE: December 8, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Phil Lutes, Deputy Managing Director Seaport
Michael McLaughlin, Senior Manager Cruise and Industrial Properties

SUBJECT: Amendments to CityIce Cold Storage Company and Seafreeze Acquisition LLC Leases

ACTION REQUESTED:

Approval of a Letter of Intent authorizing the Chief Executive Officer to execute final lease amendments for CityIce Cold Storage Company ("CityIce") lease agreements 131, 594, 842 and 1481 at Terminal 91 and Seafreeze Acquisition LLC ("Seafreeze") lease agreement 1532 at Terminal 115 and all other documents required to close the transaction. No funds are required.

SYNOPSIS:

CityIce is a long-term tenant of the Port of Seattle ("Port") at Terminal 91, currently holding five leases with the Port for land, cold storage facilities and dry warehouse buildings (four leases in the Seaport Division portfolio and one month-to-month lease in the Real Estate Division portfolio). CityIce's operation provides 250 full time jobs.

Seafreeze Acquisition LLC ("Seafreeze"), a Port tenant holding a land lease at Terminal 115, owns and operates a large, full service seafood processing plant and frozen food warehousing and distribution facility, which is positioned to service both domestic and international markets. Seafreeze's operations provides 600 full time jobs.

CityIce now is selling its business to Bay Grove Capital, LLC ("Bay Grove") which is the parent company of Seafreeze. CityIce has requested that all current leases with the Port be amended to reflect the change in control of their business concurrent with the closing of the sale.

CityIce and Seafreeze will continue to operate as separate business entities under one owner and a common management structure made up of the proven leadership team that has been in place at CityIce for 21 successful years at Terminal 91—providing cold storage facilities and services to the northwest commercial fishing industry. In addition, the new owner requests an extension of term periods of the leases.

This requested action is a good deal for the Port for the following key reasons:

- Immediate rate increases to all current term leases—resulting in a positive NPV for the port
- Opportunity to revise lease language in the Ports favor—adopting new port lease language standards
- Extension of Seaport revenue streams beyond current agreements
- Support of the growth of the cold storage business in our Port
- Continuation of the on-dock services CityIce provides to our Factory Trawler customers

The combination of these companies will create benefits for the Port, our customers, the business customers they serve and the large number of employees who hold jobs at these facilities. This proposed merging of local competing business interests provides the ability for Seattle to compete with larger competitors located in other Puget Sound ports— creating a better competitive position for Seattle in an industry which is consolidating regionally.

The attached Letter of Intent ("LOI") outlines the terms of the amendments. Following is a brief summary of the major lease provisions that have been negotiated:

- Extension of lease terms, including future renewal options and staggered lease ending dates. This would extend the current lease base terms with lease end dates 2017 - 2024 and options from 0 – 20 years, to base terms ending in 2027 – 2039 with options of 20 – 30 years.
- Standardization of several major lease provisions including: Assignment/Sublease; Environmental; Insurance and Indemnity; Maintenance and Repair; Damage and Destruction; and Leasehold Mortgage
- Initial increase in rent for all lease agreements, with annual CPI or fixed percentage adjustments and scheduled periodic rate re-negotiation.

STRATEGIC OBJECTIVES:

The Seaport's strategy in supporting this proposal is to advance the Port's position and to increase Seattle's market share of the northwest regional cold storage business. This will retain local jobs and support future growth in the cold storage industry, which supports our core container terminal business. In addition, the Port will obtain immediate value from granting the request while delaying assessment of market rates until a more favorable economic climate. The objectives also include:

- Standardization of lease language—strengthening the Port's position by reducing risk
- Better definition and reduction of the Port's maintenance responsibility
- Increased rates in all lease agreements to make them more competitive within the local market
- No additional Port capital investment

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:

Alternative 1: Amend the leases.

This alternative supports the business strategies of two of the Port's major customers by partnering in a long term commitment to extend the base lease terms and provide future options. In addition, the Port will maintain a market share of the regional cold storage business which also supports our Seaport core container business within the harbor, providing economic value, protecting jobs, and generating revenue for the Seaport for an extended amount of time. **This is the recommended alternative.**

Alternative 2: Do not amend the leases.

This alternative would prevent our tenants from accomplishing their business strategies and would prevent the Port from taking this lease renegotiation opportunity to extend the terms, increase the rates and standardize major provisions across these lease agreements.

FINANCIAL ANALYSIS:

Previous Authorizations (Planning CIP)	$0
Current request for authorization	$0
Total Authorizations, including this request	$0
Remaining estimated budget to be authorized	$0

Source of Funds:

No funds needed.

Financial Analysis Summary

CIP Category	N/A
Project Type	N/A
Risk adjusted Discount rate	7.0% - CityIce current leases 8.0% - proposed lease amendments with Bay Grove

Key risk factors	The proposed lease amendments acknowledge the transfer of ownership of CityIce to Bay Grove. A new entity, West Coast Cold, LLC, will be created as a holding company for CityIce and Seafreeze Acquisition, LLC. Key risk factors associated with the transfer of ownership include: 1) West Coast Cold, LLC is a holding company, limiting the Port's ability to secure the leases with individual investors of Bay Grove. This risk is partially mitigated by a requirement to increase the lease surety for the CityIce leases from six months to twelve months, which is an increase of approximately $600,000. The lease surety for Seafreeze was increased in the December 2008 lease amendment to a twelve month requirement. 2) The Port has limited landlord/tenant experience with Bay Grove. Bay Grove purchased Seafreeze LP, a Port tenant at Terminal 115, in December 2008 and has continued to operate the business and has been in full compliance with the lease since the assignment. 3) Bay Grove has stated an intention to purchase 100% of the outstanding CityIce stock. The Port has not been provided access to the Purchase and Sale Agreement to confirm the terms of this transaction. The Purchase and Sale Agreement will be finalized upon execution of the proposed lease amendments. This risk will be mitigated by the Port's verification that the terms of the Purchase and Sale Agreement are substantially similar to the terms that have been represented to Port staff to date. 4) Bay Grove has stated an intention to finance the acquisition of CityIce with debt. As a result, tenant debt to equity ratios could be significantly higher under the new ownership structure than presently exist under the current CityIce ownership. 5) Bay Grove will be given the ability to mortgage its leasehold premises. The Port has not been provided access to documents confirming the lending agreement. Financing is to be finalized upon execution of the proposed amendments. 6) Because of privacy concerns by the individual investor group, the Port has not been provided documentation confirming the financial capability of Bay Grove investors to provide a) equity financing related to the purchase or b) capital funds required to continue to operate CityIce. Key risk factors associated with changes in lease terms:

<table>
<tr><td></td><td>1) The lease base terms and option periods in the proposed amendments could enable all CityIce leases to expire in 2039 and the Seafreeze lease to expire in 2037. The vacancy risk is mitigated by the assumed integration of CityIce and Seafreeze at the time of lease expirations and the benefit of an extended contractual base term of up to twenty years.
2) The estimated financial impacts for these proposed lease amendments include defined percentage increases, estimated annual CPI increases and market lease rate assumptions at the lease negotiation dates defined in the attached LOI. Actual financial performance could be lower or higher, if future comparable market lease rates vary significantly from those assumed in the analysis.</td></tr>
<tr><td>Project cost for analysis</td><td>None</td></tr>
<tr><td>Business Unit (BU)</td><td>Industrial Properties</td></tr>
<tr><td>Effect on business performance</td><td>The proposed lease amendments include defined rent increases, annual Consumer Price Index (CPI) adjustments, and periodic base rent lease rate renegotiations.
A cash flow analysis was prepared with assumptions for rent renegotiation results and CPI rates as stated below.
• Renegotiation of base rent for #594 in 2014 resulting in an assumed 10% increase in base rent
• Renegotiation of base rent for #1532 in 2013 resulting in an assumed increase of 5%
• Renegotiation of base rent for all other leases in 2013 resulting in an assumed increase of 2.5%
• Month-to-month lease #443 excluded from analysis
There are no incremental operating expenses or capital investment obligations to the Port related to the proposed lease amendments. The estimated incremental impact to Net Operating Income Before Depreciation for Year 1 through Year 5 is shown below.
<table>
<tr><th>NOI (in $000's)</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th></tr>
<tr><td>Revenue</td><td>$74</td><td>$85</td><td>$100</td><td>$137</td><td>$173</td></tr>
<tr><td>Expenses</td><td>$0</td><td>$0</td><td>$0</td><td>$0</td><td>$0</td></tr>
<tr><td>NOI Before Depreciation</td><td>$74</td><td>$85</td><td>$100</td><td>$137</td><td>$173</td></tr>
</table>
There is no incremental depreciation associated with these proposed lease amendments.</td></tr>
<tr><td>IRR/NPV</td><td>The following NPV represents the incremental impact to value as a result</td></tr>
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of the assumed base rent increases throughout the original term of the CityIce lease agreements.

NPV (in $000's)	**IRR (%)**
$350	N/A

For the purpose of comparability, the time period considered in the NPV analysis was limited to the terms of the existing CityIce leases.

A risk adjusted discount rate of 7.0% was used to determine the NPV of cash flows currently obligated by CityIce.

A risk adjusted discount rate of 8.0% was used to determine the NPV of cash flows associated with the proposed assignment to Bay Grove, to reflect the additional risk associated with the uncertainties described above in the key risk factors.

TRIPLE BOTTOM LINE SUMMARY:

Approval of the proposed lease amendments will have positive financial impact for the Port. It will also provide our tenants with a more competitively positioned business in the harbor and support long-term retention of jobs. The Port will also benefit by maintaining long-term occupancy of these existing facilities without any capital investment by the Port, increasing the lease rates to make them more competitive and standardizing lease language provisions.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

Below are the most recent actions taken on these leases:

- Fourth Amendment to CityIce Lease #131 approved by Commission on August 25, 2009
- Seventeenth Amendment to Seafreeze Lease #1532 approved by Commission on March 24, 2009
- CityIce Lease #1481 approved by Commission on September 9, 2008
- First Amendment to CityIce Lease #594 approved by Commission on April 26, 2005
- CityIce Lease #842 approved by Commission on April 26, 2005