

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No.	<u>6b</u>
Date of Meeting	<u>March 9, 2010</u>

DATE: March 2, 2010

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Burke, Senior Manager, Container Leasing and Operations
Michael Campagnaro, Manager, Container Leasing and Operations

SUBJECT: Eleventh Amendment to Lease with Total Terminals International LLC at Terminal 46.

ACTION REQUESTED:

Request for Port Commission to authorize the Chief Executive Officer to execute the Eleventh Amendment to the Lease with Total Terminals International LLC (TTI) for Terminal 46. The proposed amendment would clarify how crane productivity is calculated, a factor in the calculation of the box rate used in this lease. The proposed amendment also documents certain modifications to the leased premises.

BACKGROUND:

On March 27, 2001, the Port Commission approved the Sixth Amendment to the Terminal 46 lease which created a formula for converting the Port's blended rate land rent and hourly crane rent into a per box rate with a minimum guarantee of volume. This box rate with its minimum volume guarantee replicates the Port's blended rate land rent and hourly crane rent at Terminal 46. To develop the crane rent portion of the box rate, the lease calls for using the Pacific Maritime Association's (PMA) Port of Seattle crane productivity number. The lease originally set this productivity number at 27 moves per hour, but called for the number to be updated periodically. In the process of updating the calculation, it was discovered that the PMA had no one Seattle Crane Productivity factor and can calculate crane productivity a number of different ways, depending on what down time factors are used. Total Terminals International LLC (TTI) also pointed out that with the cranes in use at Terminal 46, their actual productivity is higher than the Port average.

To resolve this the port and TTI went back and reviewed actual crane productivity records for Terminal 46 for 2007-2009. Applying the factors for calculation of crane usage hours per our tariff, the average crane productivity for Terminal 46 for that period was 26 moves per hour. The proposed amendment to the lease sets the crane productivity factor for the terminal at 26 moves per hour through 2015. If the lease is extended beyond 2015, the productivity factor will need to be reviewed using the same methodology of looking at actual productivity for the previous three years. It should be noted that this factor is only an estimate of crane productivity for box rate calculation

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purposes and does not limit actual crane productivity. The higher the productivity the less hours our cranes are used and the less revenue to the port.

In addition, this Amendment will modify the leased premises to reflect certain area deleted from the lease to accommodate the Washington State Department of Transportation taking along the frontage of Terminal 46 for the South Holgate Street to South King Street Viaduct Replacement Project. A recent survey of the Terminal 46 area was completed and revealed a discrepancy in area size as stated in the lease. Accordingly, other minor modifications to the leased premises will be made to reflect the actual area occupied by TTI since the Terminal was expanded in 2004.

The proposed Eleventh Amendment to TTI's lease will outline the correct premises and clarification of crane productivity factor for purposes of accurately describing the box rate calculation. The resulting billing changes outlined in this proposed amendment will be implemented upon full execution of the amendment.

MAJOR ELEMENTS OF THE PROPOSED ELEVENTH AMENDMENT TO LEASE:

Listed below are the major elements of the proposed T46 Eleventh Amendment to lease with TTI:

- **Lease Payments:** Clarification of the crane rent portion of the box rate by establishing the crane productivity number at 26.
- **Premises:** The premises paragraph is amended to document certain premises modifications that have taken place since the expansion of the leased premises from approximately 70 acres to approximately 88 acres in 2004. These subsequent changes included the addition of a 7,810 square foot parking area, the temporary deletion of 39,144 square feet to accommodate a rail easement, addition of a 3,000 square foot storage area, and finally the deletion of 54,044 square feet to accommodate the Washington State Department of Transportation Viaduct project. The net sum of these changes will modify leased premises from its existing documented acreage of 88.5285 acres to approximately 87.5356 acres. The premises changes will require minor billing adjustments upon full execution of the proposed Eleventh Amendment.

FINANCIAL ANALYSIS:

Source of Funds

No funds needed.

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Financial Analysis Summary

CIP Category	NA																												
Project Type	NA																												
Risk adjusted Discount rate	7.5%																												
Key risk factors	<ul style="list-style-type: none"> Terminal 46 actual crane productivity for years 2010 through 2015 could be lower than the agreed upon 26 crane moves per hour. Lower crane productivity results in higher minimum annual crane hours owed to the Port. A fixed productivity factor of 26 moves per hour would restrict the Port from increasing the minimum annual crane hours in the rent calculation until lease renewal/extension in 2016. WSDOT has cooperated with the Port to minimize negative impacts to container terminal operations due to the planned viaduct construction project. A continued risk exists that WSDOT may determine it requires additional terminal acreage to complete the viaduct construction project. If that need materializes, staff will return to Commission for any necessary authorization. 																												
Project cost for analysis	N/A																												
Business Unit (BU)	Container Operations																												
Effect on business performance	<p>The Net Operating Income (NOI) Before Depreciation for years 2010 through the end of the current Terminal 46 lease term in 2015 is shown below.</p> <table border="1"> <thead> <tr> <th>NOI (in \$000's)</th> <th>2010</th> <th>2011</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> </tr> </thead> <tbody> <tr> <td>Incremental Revenue ^(a)</td> <td>(\$49)</td> <td>(\$51)</td> <td>(\$51)</td> <td>(\$62)</td> <td>(\$62)</td> <td>(\$62)</td> </tr> <tr> <td>Incremental OpExpense</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> </tr> <tr> <td>NOI Before Depreciation ^(b)</td> <td>(\$49)</td> <td>(\$51)</td> <td>(\$51)</td> <td>(\$62)</td> <td>(\$62)</td> <td>(\$62)</td> </tr> </tbody> </table> <p><i>Note:</i></p> <p>(a) Incremental revenue reduced by sale of land to WSDOT is partially offset by increased land rent due to survey acreage corrections.</p> <p>(b) There is no incremental depreciation associated with this lease amendment.</p> <p>Prior year rent adjustments of approximately \$92,000 are not reflected above. These prior year adjustments are primarily related to land rent credits retroactive to the 8/1/09 effective date of the WSDOT possession and use agreement. This retroactive rent adjustment obligation was accrued in the 2009 operating results.</p>	NOI (in \$000's)	2010	2011	2012	2013	2014	2015	Incremental Revenue ^(a)	(\$49)	(\$51)	(\$51)	(\$62)	(\$62)	(\$62)	Incremental OpExpense	\$0	\$0	\$0	\$0	\$0	\$0	NOI Before Depreciation ^(b)	(\$49)	(\$51)	(\$51)	(\$62)	(\$62)	(\$62)
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IRR/NPV	<table border="1"> <tr> <td>NPV</td> </tr> <tr> <td>(in \$000's)</td> </tr> <tr> <td>(\$279)</td> </tr> </table> <p>The Port has no additional investment obligation associated with this lease amendment, so IRR and Payback are not applicable.</p>	NPV	(in \$000's)	(\$279)																									
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ENVIRONMENTAL BENEFITS:

None

ADDITIONAL INFORMATION:

The lease was assigned from Hanjin Shipping Company LTD., to Total Terminals International Inc., LLC on December 30, 2003.

ALTERNATIVES CONSIDERED/RECOMMENDED ACTION:

Amend the Lease Alternative. – Amend the existing Terminal 46 lease with TTI to reflect changes in the leased Premises and to clarify the Crane productivity factor. This alternative accurately reflects the Terminal 46 leased area and the method used to accurately calculate the box rate. *This is the recommended alternative.*

Do nothing Alternative. – This alternative does not allow for accurate representation of the leased area and accurate calculation of the box rate under terms of the lease.

DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- Proposed Lease Amendment

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

- Approval of Lease Amendments 1 through 9.
- The Tenth Amendment to lease was approved by Commission on August 25, 2009. This Amendment covered the Customer Support Package/Port's Clean Air Program and Authorization for the Port to purchase energy efficient light fixtures and related equipment for Terminal 46 for an amount not to exceed \$680,000.