

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**  
**ACTION ITEM**

**Item No.:** 5a

**Date of Meeting:** May 3, 2011

**DATE:** April 26, 2011

**TO:** Tay Yoshitani, Chief Executive Officer

**FROM:** Michael Burke, Director, Lease and Asset Management  
Scott Pattison, Asset Manager, Lease and Asset Management

**SUBJECT:** Second Amendment to Crowley Marine Services, Inc. Lease at Piers 16/17.

**ACTION REQUESTED:**

Request for Commission Authorization for the Chief Executive Officer to execute the Second Amendment to Crowley Marine Services, Inc. (CMS) Lease No. 262 at Piers 16/17 to reduce the submerged lands portion of CMS's lease by 13,100 square feet and to reduce the annual rent by \$5,361.84.

**SYNOPSIS:**

On July 13, 2010, the Commission authorized construction funding for the North Harbor Island Mooring Dolphin Project. In early August 2010, Port staff determined that if the maximum barge size (400' x 100') were to use the West Berth of the new North Harbor Island Mooring Dolphins, a small portion of the berth area would infringe on submerged land the Port was already leasing to CMS. Port staff began working immediately on a solution that would resolve this potential usage infringement. Execution of the proposed Second Amendment to the CMS lease is required to correct this encroachment on leased property. The proposed amendment reduces CMS's submerged lands portion of its premises by 13,100 square feet, from 544,347 to 531,247 square feet.

The total annual rent from CMS would be reduced by \$5,361.84 per year, from \$495,049.68 to \$489,687.84 per year. Approving this amendment will enable full utilization of the West Berth area at the adjacent North Harbor Island mooring dolphins by allowing the Port to market the new facility to the largest barge size the facility is constructed to service, without encroaching on CMS's submerged premises. CMS supports this Amendment.

The Port has a tenant that is prepared to locate to the West Berth under a lease agreement. With this agreement, staff projects additional revenue of \$62,000 per year upon the approval of this amendment to the CMS lease.

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### **BACKGROUND:**

The Industrial Moorage Initiative was presented at the June 3, 2008, Commission meeting and outlined a three-phased approach to preserving, restoring, and expanding harbor moorage for industrial vessels in our harbor.

On August 11, 2009, the Commission authorized design funding of the North Harbor Island Mooring Dolphin Project. On July 13, 2010, the Commission authorized construction funding of the North Harbor Island Mooring Dolphin Project. The replacement berths are designed to handle the larger class of modern barges than was previously possible at this location. In order to make space for these larger barges at the West Berth, it is necessary to reduce the submerged lands in the CMS lease by 13,100 square feet.

CMS and its predecessors have been Port of Seattle tenants for more than thirty-five years. CMS provides worldwide, specialized marine transportation and logistics services, operating one of the world's largest fleets of marine and related equipment. In the Seattle harbor, the company administers ship-assists and tanker escorts; petroleum sales; contract barge transportation; ocean towing; maritime logistics and support services; marine salvage, and marine emergency response services. CMS is supportive of this Amendment, as it would expand barge moorage in the Seattle harbor for larger barges, such as those owned and operated by CMS.

Approval of this request will result in a reduction in the amount of rent from CMS by \$5,361.84, and will preserve the capacity to maximize revenue at the North Harbor Island West Berth as described in the July 13, 2010, Commission Memo when the Harbor Island Mooring Dolphin Project was approved.

### **FINANCIAL IMPLICATIONS:**

#### **Source of Funds:**

No funds needed.

#### **Financial Analysis and Summary:**

CIP Category	NA
Project Type	NA
Risk adjusted Discount rate	NA
Key risk factors	<ul style="list-style-type: none"><li>• The CMS lease requires annual rental rate adjustments for submerged land based on the Consumer Price Index (CPI). Effect on business performance shown below assumed a 2.5% average annual CPI increase through lease expiration of December 31, 2021.</li><li>• Marketing efforts are currently underway to maximize utilization of the West Berth of the North Harbor Island mooring dolphins, as well as for other Port barge moorage locations throughout the harbor.</li></ul>

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Project cost for analysis	NA																								
Business Unit (BU)	Seaport Leasing and Asset Management																								
Effect on business performance	<p>Impact on Net Operating Income (NOI) and NOI after Depreciation for years 2011 through 2015 from the Crowley Marine Services (CMS) lease amendment is shown below.</p> <table border="1"> <thead> <tr> <th><u>NOI (in \$000's)</u></th> <th><u>2011</u></th> <th><u>2012</u></th> <th><u>2013</u></th> <th><u>2014</u></th> <th><u>2015</u></th> </tr> </thead> <tbody> <tr> <td>NOI</td> <td>(\$4)</td> <td>(\$5)</td> <td>(\$6)</td> <td>(\$6)</td> <td>(\$6)</td> </tr> <tr> <td>Depreciation</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> <td>\$0</td> </tr> <tr> <td>NOI After Depreciation</td> <td>(\$4)</td> <td>(\$5)</td> <td>(\$6)</td> <td>(\$6)</td> <td>(\$6)</td> </tr> </tbody> </table> <p>The above reduction in revenue from the CMS lease amendment preserves the ability to fully utilize the West Berth of the newly constructed North Harbor Island mooring dolphins. Annual revenue for the mooring dolphins West Berth is currently estimated at \$85,000/yr. Revenue from the North Harbor Island mooring dolphins is not included in the NOI impacts above.</p>	<u>NOI (in \$000's)</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	NOI	(\$4)	(\$5)	(\$6)	(\$6)	(\$6)	Depreciation	\$0	\$0	\$0	\$0	\$0	NOI After Depreciation	(\$4)	(\$5)	(\$6)	(\$6)	(\$6)
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IRR/NPV	<p><b>FOR INFORMATION ONLY:</b></p> <p>The financial analysis prepared for the Commission approval of the North Harbor Island mooring dolphin project has been updated to consider the impact of the revenue reduction from the Crowley Marine Services (CMS) Lease Amendment. The resulting change in NPV and IRR for the North Harbor Island Mooring Dolphin project is shown below.</p> <table border="1"> <thead> <tr> <th><u>North Harbor Island Mooring Dolphins Financial Impacts</u></th> <th><u>NPV (in \$000's)</u></th> <th><u>IRR (%)</u></th> </tr> </thead> <tbody> <tr> <td>July 13, 2010 Commission Memo</td> <td>(\$28)</td> <td>7.0%</td> </tr> <tr> <td>May 3, 2011 Commission Memo</td> <td>(\$68)</td> <td>6.9%</td> </tr> </tbody> </table>	<u>North Harbor Island Mooring Dolphins Financial Impacts</u>	<u>NPV (in \$000's)</u>	<u>IRR (%)</u>	July 13, 2010 Commission Memo	(\$28)	7.0%	May 3, 2011 Commission Memo	(\$68)	6.9%															
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### STRATEGIC OBJECTIVES:

- Develop New Business and Economic Opportunities for the Region and the Port by rebuilding the North Harbor Island layberth facilities to moor the new class of larger barges frequenting our harbor, increasing the Port's financial performance in the process.
- Ensure Seaport Vitality by increasing potential revenue to the Port of Seattle by returning the North Harbor Island layberth facilities to productive service.

### ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- Execute the Second Amendment to CMS Piers 16/17 Lease, reducing its lease area by 13,100 square feet and reducing annual rent by \$5,361.84. The proposed amendment will correct infringement on leased property, and allow the Port to expand the berth area at the West Berth of the North Harbor Island dolphins. *This is the recommended alternative.*
- Do not amend the CMS Lease. This alternative will limit the capacity of the West Berth to one barge up to 280 feet, rather than two barges each up to 400 feet long. The Port would not be maximizing the use of the West Berth and would be required to restrict the

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size of the barges using this berth to a smaller vessel size than the facility was constructed to handle. Revenue would decline accordingly.

### **OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:**

- Second Amendment to CMS lease at Piers 16/17 signed by CMS.

### **PREVIOUS COMMISSION ACTION OR BRIEFING:**

- July 13, 2010 – Commission authorization for construction funding CIP# C800182.
- August 11, 2009 – Commission authorization to design, permit, and procure long lead materials to reconstruct four (4) mooring dolphins at the north end of Harbor Island.
- June 3, 2008 – Industrial Moorage Initiative - policy and staff briefing.
- November 27, 2001 – Authorization for the Managing Director to execute the First Amendment to CMS lease at Piers 16/17, and project-wide authorization to execute agreements related to Pier 17 Partial Replacement project.
- November 13, 2001 – Authorization for the Managing Director to execute a reforming amendment to Pier 16/17 lease with CMS and indemnity agreement.
- December 14, 1999 – Commission approved the adoption by the Board of Industrial Development Corporation of the Port of Seattle of an Official Declaration of Intent to Issue Nonrecourse Revenue Bonds for the purpose of paying and reimbursing Capital Expenditures associated with the CMS building; Resolution No. 3380 Surplusing certain Pier 16 personal property; and Resolution 3181 authorizing major and small works construction contracts for Pier 17 maintenance and repair.
- December 9, 1999 – Authorization for the Managing Director to execute a Term Lease with CMS at Piers 16/17.