

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA

Item No. 6c

Date of Meeting August 2, 2011

DATE: July 27, 2011

TO: Tay Yoshitani, Chief Executive Officer

FROM: Michael Burke, Director, Leasing and Asset Management
Michael Campagnaro, Manager, Leasing and Asset Management

SUBJECT: Twelfth Amendment to Terminal 46 Lease with Total Terminals International LLC and Term Lease Agreements with Washington State Department of Transportation at Terminal 46 and Terminal 106.

Amount of This Request: N/A **Source of Funds:** N/A

Est. State and Local Taxes: N/A **Est. Construction Jobs Generated:** N/A

Total Project Cost: N/A

ACTION REQUESTED:

Request Commission authorization for the Chief Executive Officer to execute the following agreements: (1) Twelfth Amendment to the Terminal 46 lease between the Port of Seattle and Total Terminals International LLC; (2) Term Lease Agreement between the Port of Seattle and Washington State Department of Transportation at Pier/Terminal 46 North; and (3) Term Lease Agreement between the Port of Seattle and Washington State Department of Transportation at Terminal 106.

SYNOPSIS:

The Port of Seattle (Port) is proposing two lease agreements between the Port and Washington State Department of Transportation (WSDOT). The proposed agreement for Terminal 46 (T-46) requires an amendment to the lease in effect between the Port and Total Terminals International LLC (Total Terminals). The proposed agreements with WSDOT are a critical element supporting construction of the SR-99 bored tunnel. The Port also benefits from these agreements by minimizing construction impacts to T-46 truck movement, businesses and the traveling public, and by increasing revenue to the Port for Terminal 106 (T-106) and Pier/T-46 North (dock operations area). There will be no net reduction in rent to the Port for the area deleted under the Total Terminals lease amendment, as WSDOT will pay an equivalent amount of rent to the Port for the exact same area.

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The Port and Total Terminals have agreed to a proposed amendment to the T-46 lease. The main purpose of this amendment is to temporarily delete approximately five acres from the leased premises to accommodate WSDOT's operations on the proposed SR-99 bored tunnel of the Alaskan Way Viaduct Replacement Program (Viaduct Project). The Port and WSDOT have agreed to two proposed lease agreements for Pier/T-46 (incorporating the subtracted Total Terminals leasehold area and other soon-to-be vacant premises along the north apron) and T-106.

ADDITIONAL BACKGROUND:

Since the Nisqually earthquake in 2001, WSDOT has worked with the City of Seattle, King County and the Port to replace the damaged portion of SR-99 along the waterfront. Construction of a replacement of the southern portion of SR-99, the S. Holgate to S. King Street Project, is underway and expected to be completed by the end of 2013. Construction of a bored tunnel, replacing SR-99 along the central waterfront, is currently expected to begin in the fall of 2011. The project will move SR-99 into a bored tunnel beneath downtown, reconnect the street grid at the ends of the tunnel, and remove the viaduct along the waterfront. The current route for the tunnel begins on Alaskan Way S. (near S. King Street alongside T-46) to avoid impacts on First Avenue S. through Pioneer Square, then moves toward First Avenue near Yesler Way, turns north near Stewart Street and ends at Sixth Avenue N. and Thomas Street. It will be approximately two miles long and will have two lanes of traffic in each direction, with ramps at both ends so drivers can access the downtown street system from SR-99.

The proposed agreements with WSDOT and the amendment to the Total Terminals lease are a critical element supporting construction of the bored tunnel. A major advantage of the bored tunnel is that construction impacts to businesses and the traveling public will be minimized. Using a tunnel-boring machine will enable WSDOT to build the new corridor while SR-99 remains open to traffic.

Providing room on Pier/T-46 supports bored tunnel construction and reduces the impact of construction even further by eliminating thousands of truck trips from the area around Pier/T-46. A staging area on Pier/T-46 will enable the State's contractor to remove tunnel spoils via a conveyor system to Pier/T-46, and barge them from the dock to their final destination. Similarly, tunnel segments and other large components of the tunnel can be barged, rather than trucked in. T-106 will be used for worker parking and some staging. The State's contractor will bus workers to and from the tunnel construction site, eliminating thousands of car trips and additional pressure on an already reduced supply of parking in the south downtown area.

MAJOR ELEMENTS OF THE PROPOSED AGREEMENTS:

The major elements of the proposed agreements are as follows:

1) Twelfth Amendment to Total Terminals T-46 Lease

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- a. Leased Premises – Temporarily reduce the leased premises from approximately 87.5356 acres to 82.6664 acres (to be confirmed by survey) for a term of three (3) years and six (6) months. The estimated effective date of reduction in leased premises is May 1, 2012, through November 30, 2015. If substantial completion of the improvements referenced below is not completed by December 31, 2012, then this proposed Amendment shall be null and void.
- b. Rent – Temporarily reduce the total monthly rental effective upon completion of the WSDOT improvements, by the amount of rent applicable to the reduced area being leased to WSDOT.

This amendment is contingent upon substantial completion by WSDOT of improvements approved by the Port and Total Terminals. In order for Total Terminals to surrender approximately five (5) acres of their leasehold, certain improvements must be completed by WSDOT on other portions of the Total Terminals leasehold to mitigate the loss in acreage. WSDOT has estimated the cost of these improvements to be in the \$8 to 10 million range. The improvements include a new rubber tired gantry crane that will be provided by WSDOT to Total Terminals, which will not be owned by the Port. The property improvements are as follows:

- Yard densification for operation of a new Rubber Tired Gantry (RTG), and provision of an RTG.
- Security fencing to divide the WSDOT staging area from the terminal crane operations.
- Relocation of hides storage area and related utility installation.
- Relocation of existing crane maintenance area.
- Densification of existing grounded reefer racks from two-high grounded reefers to four-high grounded reefers.
- Demolition and replacement of two buildings at the north end of T-46 with structures of equal dimension and access.
- Yard pedestal upgrades.
- Additionally, WSDOT will be responsible for relocation costs associated with the termination of three (3) leases by the Port within the North Apron area (Golden Alaska Seafoods, LLC, Crawford Nautical School, and Puget Sound Pilots) in order to make this area available to WSDOT. WSDOT will demolish two buildings in this area at the beginning of its lease term and replace the buildings with structures of equal dimension and access at the end of the lease term.

These improvements shall become the property of the Port following construction. In order to construct these improvements, WSDOT will need to obtain Temporary Construction Easements from Total Terminals and compensate Total Terminals for the loss in leased area as the improvements are being constructed. The Temporary Construction Easements will require Port acknowledgment.

Copy of the proposed twelfth amendment is attached to this Commission memo.

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2) Term Lease with WSDOT at T-46

- a. Leased Premises – Approximately 212,102 square feet of container yard area and 64,917 square feet of area on the North Apron, together with the right to the adjoining moorage areas (all to be confirmed by survey).
- b. Acceptance of Premises – WSDOT accepts the premises in their “as-is” condition and agrees to complete a structural review of the premises for the purposes of determining their load capacity.
- c. Lease Term – Approximately three (3) years and six (6) months commencing upon substantial completion of improvement to T-46, estimated to be May 1, 2012, through November 30, 2015. If substantial completion of the improvements referenced in item 1 above is not completed by December 31, 2012, then this lease may be terminated.
- d. Rent – Container Yard Area at \$44,005.16 per month, with corresponding increases to coincide with the container terminal Eagle Rate increases, and North Apron Area at \$40,000.00 per month, with a corresponding 3% increase per year.
- e. Security – No security deposit required.
- f. Use of Premises – For construction staging, material storage, vehicle parking, moorage, conveyance system for transfer of material/spoils onto barges, and office associated with the Viaduct Project.
- g. Utilities – WSDOT responsibility to reimburse the Port or Total Terminals.
- h. Maintenance and Repair – WSDOT responsible for all maintenance and repairs.
- i. Insurance and Indemnity – General Liability insurance in the amount of \$5 million per occurrence and Automobile Liability insurance in the amount of \$5 million per occurrence.

A draft copy of the proposed T-46 lease agreement is attached to this Commission memo.

3) Term Lease with WSDOT at T-106

- a. Leased Premises – Approximately 516,000 square feet of warehouse area at T-106.
- b. Acceptance of Premises – WSDOT accepts the premises in their “as-is” condition and is required to obtain any required building and occupancy permits prior to occupying the premises. WSDOT shall be responsible for abating the premises of known lead contamination prior to occupying the premises.

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- c. Lease Term – Approximately four (4) years and three (3) months commencing upon WSDOT issuing *Notice to Proceed 2*, estimated to be September 1, 2011, through December 31, 2015.
- d. Option to Extend – WSDOT shall have the option to extend the lease term for a period of up to twelve (12) months.
- e. Rent – Warehouse Area at \$72,000.00 per month, with a corresponding 3% increase per year.
- f. Security – No security deposit required.
- g. Use of Premises – For material storage, vehicle parking, and office associated with the Viaduct Project.
- h. Utilities – WSDOT responsible for all utilities.
- i. Maintenance and Repair – WSDOT responsible for all maintenance and repairs.
- j. Insurance and Indemnity – General Liability insurance in the amount of \$5 million per occurrence and Automobile Liability insurance in the amount of \$5 million per occurrence.

A draft copy of the proposed T-106 lease agreement is attached to this Commission memo.

FINANCIAL IMPLICATIONS:

Source of Funds

No funds needed.

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Financial Analysis Summary

CIP Category	N/A
Project Type	N/A
Risk adjusted Discount rate	7.5%
Key risk factors	<ul style="list-style-type: none"> • The commencement date of the leases are contingent upon the following factors: <ul style="list-style-type: none"> ➢ T-46 Lease is contingent upon substantial completion of improvements by WSDOT at T-46. Substantial completion to be determined by the Port of Seattle and TTI. Design and scope of improvements, as defined in the WSDOT lease, will be reviewed and approved by the Port prior to construction. ➢ Both the T-46 and the T-106 Leases are contingent upon WSDOT receiving a Notice to Proceed. • The leases do not include lease security provisions.
Project cost for analysis	N/A
Business Unit (BU)	Seaport Industrial; Container Operations; and Dock Operations

Effect on business performance	Incremental Net Operating Income After Depreciation for Year 1 through Year 5 is shown below.					
	NOI (in \$000's)	2011	2012	2013	2014	2015
	Revenue ⁽¹⁾	\$288	\$997	\$1,200	\$1,236	\$1,225
	NOI	\$288	\$997	\$1,200	\$1,236	\$1,225
	Depreciation	\$0	\$0	\$0	\$0	\$0
	NOI After Depreciation	\$288	\$997	\$1,200	\$1,236	\$1,225
	1) Revenue net of lost revenue from current tenants.					

IRR/NPV	NPV
	(in \$000's)
	\$4,166

ECONOMIC IMPACTS AND BUSINESS PLAN OBJECTIVES:

Proceeding with the proposed agreements related to the construction of the SR-99 Alaskan Way Viaduct Project is a benefit to the Port because the bored tunnel's construction impact to businesses and the traveling public will be minimized. Improvements to SR-99 and city streets will provide capacity in the transportation system for today and the future and improve access and mobility to and through the south of downtown area and to Port properties.

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STRATEGIC OBJECTIVES:

Efficient regional transportation is a top priority for the Port. The proposed agreements align with the Port's strategic objectives.

ADDITIONAL INFORMATION:

The Port originally acquired T-106 Building 1 from PARR Industries in approximately 1970 and utilized the building for the Port's warehousing business until approximately 2003. The building has largely sat idle since that time, as various alternative uses have been considered for the site including an RFP offering the site as a possible logistics facility. The configuration of the building makes it obsolete in terms of market industry standards and therefore it would require significant capital investment to be brought up to a condition and configuration that would make it leasable in the current real estate marketplace.

ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:

- **No Action Alternative:** Do not execute lease amendment with Total Terminals and the proposed leases with WSDOT. This action potentially causes severe impact to the proposed Viaduct Project, T-46 trucking operations, and the traveling public.
- **Recommended Action:** Amend the T-46 lease with Total Terminals and execute agreements with WSDOT as proposed. This action minimizes construction impacts to Total Terminals, other surrounding businesses, the traveling public, and will increase revenue to the Port at T-106 and T-46 North. **This is the recommended alternative.**

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

- T-46 and T-106 Aerial Photos
- Proposed Twelfth Amendment to T-46 Lease with Total Terminals
- Proposed Term Lease with WSDOT at T-46
- Proposed Term Lease with WSDOT at T-106

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

WSDOT: None pertaining to this request

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Total Terminals:

- 3/26/1991 – Commission approved a new lease agreement with Total Terminals.
- 8/27/1991 – Commission authorized Chief Engineer, and Director of Marine Services, to prepare plans and specifications, retain outside professional services, and execute construction contracts.
- 1/11/1994 – Commission approved a First Amendment to T-46 Lease.
- 3/18/1994 – Commission approved a Second Amendment to T-46 Lease.
- 5/24/1994 – Commission approved a Third Amendment to T-46 Lease.
- 11/22/1994 – Commission approved a Fourth Amendment to T-46 Lease.
- 9/10/1996 – Commission approved a Fifth Amendment to T-46 Lease.
- 7/11/2000 – Commission approved staff to perform work, including studies, prepare plans and specifications, award and execute contracts for outside professional services for the redevelopment of T-46.
- 3/27/2001 – Commission approved a Sixth Amendment to T-46 Lease and approved staff to proceed with professional services agreements for \$1,500,000.
- 8/09/2001 – Commission approved a Seventh Amendment to T-46 Lease and Assignment and Assumption of Crane Maintenance.
- 9/13/2001 – Commission briefing to update the Commission on crane maintenance negotiations.
- 12/18/2003 – Commission approved an Eight Amendment to T-46 Lease.
- 1/11/2005 – Commission approved a Ninth Amendment to T-46 Lease.
- 4/14/2009 – Commission approved a Tenth Amendment to T-46 Lease for the Customer Support Package and Clean Air Program and authorization for the Port to purchase energy efficient light fixtures and related equipment for T-46 for an amount not to exceed \$680,000.
- 5/09/2010 – Commission approved an Eleventh Amendment to T-46 Lease.