

**INTERLOCAL AGREEMENT
BETWEEN THE PORTS OF SEATTLE AND TACOMA
RELATING TO THE CREATION OF A JOINT SEAPORT ALLIANCE
[Exhibit 1 to AMENDMENT No. 1 TO FMC DISCUSSION AGREEMENT 201222]**

This Interlocal Agreement (the "ILA") is made this 14th day of October, 2014, by and between the Port of Seattle and the Port of Tacoma (together, the "Ports"), each a port district organized under the laws of the State of Washington (the "State"), under the authority of the Washington State Interlocal Cooperation Act, RCW 39.34 and the Port Joint Powers authority (RCW 53.08.240), and the authority of the Federal Maritime Commission in accordance with the provisions of the Federal Shipping Act of 1984 for the purpose of documenting the common desire of the Ports to negotiate the terms of a joint seaport alliance.

RECITALS

WHEREAS, the Port of Seattle (the "POS") and the Port of Tacoma (the "POT") are municipal corporations of the State, organized under provisions of the laws of the State, now codified at Title 53 RCW. POS owns and operates the marine facilities at the Seattle harbor, Seattle-Tacoma International Airport, and other properties. POT owns and operates the marine facilities at the Tacoma harbor and other properties; and

WHEREAS, the Ports are the two largest ports in the State and together represent the third largest container trade gateway in the United States, serve as the primary gateway for our state's export-based economy and support thousands of maritime-related jobs; and

WHEREAS, discretionary container cargo, principally bound for or from the Midwest, represents a significant segment of each port's cargo volume, supports the financial success of each port's seaport operations, and provides critical empty container capacity for Washington exporters; and

WHEREAS, the Ports understand significant changes in the shipping industry present challenges and opportunities for the future of the United States' Pacific Northwest trade, including:

1. Increased competition from expanding ports across North America, including other West Coast ports,
2. Shipping line consolidations and alliances leading to fewer port calls,

3. The introduction of larger container ships and increased use of all water routes, leading to fewer port calls, and
4. Attracting and accommodating larger container ships that will require substantial capital investment by the Ports; and

WHEREAS, these market developments present opportunities for expanded collaboration between the Ports to improve our region's capabilities to grow cargo volume and protect market share by:

1. Coordinating investment strategies to achieve terminal infrastructure needed to handle ultra-large container ships;
2. Improving terminal capacity utilization;
3. Adopting a sustainable financial business model that improves financial outcomes for the two public port authorities;
4. Jointly pursuing and executing a shared road and rail infrastructure strategy, and
5. Enhancing the ports' mission of responsible economic development through coordinated environmental stewardship.

WHEREAS, the continued competitiveness of the Puget Sound gateway would be enhanced by leveraging the strengths of each port to reach shared goals for the region and the State in ways that either port acting alone could not achieve; and

WHEREAS, State law allows the Ports to exercise any of their powers jointly by mutual agreement; and the Ports desire to come together to form, establish, and support a joint seaport alliance, to carry out the unified management and operation of the marine cargo operations and functions of each port; and

WHEREAS, this ILA reflects the commitment of the two Ports to move expeditiously toward implementation of the planned joint seaport alliance;

WHEREAS, the Ports will remain separate port districts governed by locally elected port commissioners; this and future planned actions discussed herein will not consolidate or merge the Ports. At the same time, the Ports are committed to shared core objectives of financially viable business models that support customer success, value the port-labor partnership, protect and increase regional jobs, benefit the citizens of

Pierce and King counties, promote the Pacific Northwest corridor's role in US trade strategies and the greater North American economy, and ensure the ability of the Ports to reinvest in terminal assets and infrastructure; and

WHEREAS, pursuant to Federal law 46 USC Title 46, Congress has granted authority for ports and marine terminal operators in certain circumstances and if approved by the Federal Maritime Commission, to "discuss, fix or regulate rate or other conditions of service; or engage in exclusive, preferential, or cooperative working arrangements, to the extent that such agreements involve ocean transportation in the foreign commerce of the United States." 46 USC § 40301(b)(1-2), and

WHEREAS, the Ports are committed to working together based on trust and transparency, mutual respect for the goals and public input of the people of both Pierce and King counties, and a recognition the region is stronger when its leaders collaborate and leverage limited public resources and

WHEREAS, the Ports are committed to serving the citizens of Pierce and King counties and the manufacturing and agricultural exporters throughout the state by supporting thousands of existing jobs, growing new jobs, securing new investments, and generating significant tax revenues to state and local governments and

WHEREAS, the Ports believe the ability to achieve these guiding objectives should be executed by a joint seaport alliance that prioritizes regional interests in decision-making, with a unified vision for regional success, to better fulfill their shared economic development mission as defined in Washington state law, and

NOW THEREFORE, in consideration of the promises contained in this ILA, the parties agree as follows:

I. GENERAL TERMS.

- A. **Seaport Alliance Creation: Interlocal Agreement Two-Step Process.** The terms of this ILA provide a framework ("Framework ILA") to advance the discussions of the Port of Tacoma and the Port of Seattle for the creation of a joint seaport alliance ("Seaport Alliance"). As a second step, the ports of Seattle and Tacoma shall negotiate in good faith to execute a second ILA for the purpose of reaching an agreement that defines the roles, duties and responsibilities for the two Ports, and the scope, creation, operation, funding, financing, staffing, and delegated powers of the Seaport Alliance (the "Seaport Alliance Agreement"). The Ports will give the Seaport Alliance an official name at the conclusion of a branding process occurring prior to adoption of the Seaport Alliance Agreement. The Ports anticipate that the Seaport Alliance Agreement will address, at a minimum, the

matters set forth in this Framework ILA.

- B. Seaport Alliance Purpose.** The Seaport Alliance's purpose will be to promote and assist economic development of the POS and POT marine cargo operations with an emphasis on unified business retention and recruitment, coordinated enhancement of the value of marine cargo assets, improved intermodal rail service, and the general promotion of maritime economic development activity.
- C. Seaport Alliance to be Exclusive Marine Gateway Operator & Manager.** During the term of the Seaport Alliance Agreement, the Seaport Alliance will be the exclusive manager and operator of the marine cargo business of both Ports. The Seaport Alliance will oversee operations, capital investments, and investments with unified management to:
1. optimize the value of marine cargo assets, to include terminal redeployment, if appropriate
 2. grow cargo volumes and protect market share for the benefit of the region and state,
 3. manage overall terminal capacity, through coordinated investment strategies
 4. provide enhanced job prospects for the Ports' labor and business partners, and
 5. achieve overall financial returns that will not only enable reinvestment but also ultimately provide additional financial returns for each port district.
- D. Seaport Alliance To Support Customer Success.** The Ports intend that the Seaport Alliance, in partnership with customers, key stakeholders and labor, will provide the most efficient, customer-friendly trade gateway enabling the Ports to achieve benefits for the taxpayers within each port's district. The ports are committed to support the ability of private marine terminal operators currently within each port to successfully compete in the global market to grow cargo volumes and protect market share and bring business to their facilities.
- E. Seaport Alliance Governance.** The Ports are not consolidating or merging their respective port districts. The two Ports will remain as separate legal entities, independently governed, and each port will continue to be governed by its elected commissioners. The two POS and POT commission boards shall govern the Seaport Alliance acting jointly as two boards of five commissioners each. Seaport Alliance action shall require a majority vote of a quorum of each

commission board, provided however that any authority for which a commission may not delegate by operation of law will be retained and exercised by each port commission acting separately. The Seaport Alliance Agreement shall identify those certain matters that, due to state law, require the majority vote of each independent port commission, including appointment of executive management, delegation of authority, and approval of annual operating and capital budgets in accordance with regional strategies.

F. **Seaport Alliance Structure.** The Seaport Alliance Agreement will specify the form of the Seaport Alliance entity, which may include any form permitted under the Interlocal Cooperation Act (chapter 39.34 RCW).

G. **Seaport Alliance Management.** The Seaport Alliance Agreement will memorialize the initial selection and hiring of the Chief Executive Officer (CEO) by the POS and POT Commissions, effective upon the two Commissions' adoption and FMC approval of the Seaport Alliance Agreement. The Seaport Alliance CEO will be responsible for the executive management of the Seaport Alliance. The CEO for the Seaport Alliance shall report to the POS and POT commission boards acting in their governing capacity as described in Section I, E herein. The Seaport Alliance CEO shall operate and manage the Seaport Alliance pursuant to a unified delegation of authority granted by each Commission, and to carry out:

1. the regional strategies (expectations) and performance metrics (measuring the success of the strategies), which shall be incorporated into the Seaport Alliance's operating policies, procedures and protocols, and
2. Operating and capital budgets which reflect regional strategies developed for the Seaport Alliance and approved by each commission annually.

The Seaport Alliance Agreement also shall set forth the future hiring and removal process, the performance expectations, and annual evaluation methods for the Seaport Alliance CEO.

H. **Seaport Alliance Due Diligence Phase.** Commencing with the adoption of this Framework ILA, the Ports acknowledge there will necessarily be an interim period before the Seaport Alliance Agreement is adopted by each port commission and approved by the Federal Maritime Commission ("Seaport Alliance Due Diligence Phase").

During the Seaport Alliance Due Diligence Phase, the POS and POT commissions each will delegate to their designated staff the authority to develop a transition plan ("Seaport Alliance Transition Plan"). The Seaport Alliance Transition Plan process will include periodic commission review. The development of the Seaport Alliance Transition Plan will help to inform the final Seaport Alliance Agreement that will ultimately be considered for final Commission adoption and approval by the Federal Maritime Commission and will guide the Seaport Alliance during its initial Post-FMC and Commissions' approval period ("Transition Period").

I. **Seaport Alliance Transition Plan Elements.** The Seaport Alliance Transition Plan will detail the steps and timeframes needed to fully execute and optimize the performance of the Seaport Alliance, and will include at a minimum the following elements:

1. financial start-up framework and processes,
2. management structure and organizational functions,
3. identification of support functions and an integrated allocation process,
4. development of a 10-year strategy and execution plan,
5. identification of performance metrics in coordination with key stakeholders, including customers and labor,
6. formulation of an internal and external communications strategy, and
7. development of a robust plan for a public engagement and comment process.

J. **Regional Work Emphasis During Seaport Alliance Due Diligence Phase.** In the Seaport Alliance Due Diligence Phase, the POT and POS Port Commissions agree that their respective staff will work collaboratively to achieve the outcomes described in the Framework ILA. During the Due Diligence Phase, designated staff from both ports will coordinate regional marketing, capital development, and planning for seaport facilities at the two Ports. Unified, customer specific actions by the two Ports such as joint customer calls and pursuit and negotiations of customer seaport agreements are expressly subject to the Federal Maritime Commission's (FMC) approval of this Framework ILA.

The two ports' regional planning, capital development and general marketing in this coordinated manner will continue until the Seaport Alliance Agreement is adopted by each Commission, approved by the FMC and is fully operational, or unless the Commission of either port withdraws from this Framework ILA.

- K. **Assets Assigned to Seaport Alliance.** The two Ports will each assign to the Seaport Alliance, for purposes of operation and management only and not fee ownership, assets needed to carry out the purpose of the Seattle/Tacoma Seaport Alliance, to include real and personal property, leases, terminals, and infrastructure ("Assigned Assets"). A preliminary list of each port's Assigned Assets is attached as **Appendix A**, and is expressly subject to further review and modification during the Seaport Alliance Due Diligence Phase. Ownership of the Assigned Assets will continue to be separately held by each port, including responsibility for debt and debt service. Assigned Assets will be operated and managed by the Seaport Alliance through licenses, leases, or other mechanisms as deemed advisable for management and operational purposes. The Seaport Alliance will not take fee ownership of such assets.
- L. **Port Capital Contributions to the Seaport Alliance.** Initial operating capital, and ongoing operating capital, if necessary, for the Seaport Alliance will be contributed equitably by the Ports. Capital contributions for the Seaport Alliance will be agreed upon by the Ports, and their costs will be contributed equitably by each port. Each port will independently fund its respective share of any such capital contributions.
- M. **Seaport Alliance Budget Procedures.** Procedures for the establishment of budgets, operating and capital will be set forth in the Seaport Alliance Agreement with the continued intention of the Ports that capital contributions from the Ports would be independently funded, and the asset contributions of each port to be periodically re-assessed.
- N. **Seaport Alliance Financial Accounting.** The Seaport Alliance Agreement will specify the method of sharing of profits, losses, and returns of the Seaport Alliance to the Ports.

The Seaport Alliance Agreement will specify accounting and annual reporting requirements, accounting standards; borrowing capabilities; valuation of assets; and other necessary tax and financial matters.

- O. **Ports' Commitment to Seaport Alliance Term.** The Ports intend that the Seaport Alliance Agreement is a durable, long term commitment by the Ports, with an indefinite term.
- P. **Seaport Alliance Termination Process.** The Seaport Alliance Agreement will specify termination procedures with substantial prior notice and would address subsequent return of the Ports' Assigned Assets. No contract made by the Seaport Alliance will be impaired by the termination. Termination of the Seaport Alliance Agreement shall not relieve the Ports of any liabilities or obligations previously incurred.
- Q. **Timing of Seaport Alliance Agreement Consideration.** The two Ports expect that the Seaport Alliance Agreement will be ready for consideration and adoption by each port's commission with a target date of March 31, 2015, to be followed by filing with the FMC for approval.
- R. **Port Expectations Upon Seaport Alliance Agreement Adoption.** Post-adoption of the Seaport Alliance Agreement, the Seaport Alliance CEO and staff, and the staffs of both Ports, are expected to support and reflect in their work the regional vision of the Seaport Alliance. The Seaport Alliance CEO will lead the execution of the Seaport Alliance Transition Plan which puts in place the operating procedures and processes for the Seaport Alliance.

The Ports expect the Seaport Alliance CEO to utilize the staff and facilities of both Ports and to develop an integrated staff to carry out the Seaport Alliance Transition Plan and certain functions of the Seaport Alliance. The Ports also recognize that Seaport Alliance and Ports' staff will be based in facilities and offices in both King and Pierce Counties, whether on a transitional basis or for ongoing operational needs.

II. MISCELLANEOUS PROVISIONS OF THIS ILA

- A. **Time Is Of The Essence.** The Ports shall move expeditiously and negotiate in good faith to implement the terms of this Framework ILA in order to seize current market opportunities and minimize market exposure during the transition.
- B. **Counterparts.** This ILA may be executed in one or more counterparts and by facsimile, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

C. Property Ownership. No ownership of property will transfer as a result of this ILA.

D. No Third Party Beneficiaries. This ILA is entered into solely for the mutual benefit of the two Ports. This ILA is not entered into with the intent that it shall benefit any other person or entity and no other such person or entity shall be treated as a third-party beneficiary of this ILA.

E. Severability. The provisions of this ILA are hereby declared to be separate and severable, and the invalidity of any clause, sentence, paragraph, subdivision, section, or portion of this ILA or the invalidity of its application to any person or circumstance shall not affect the validity of its application to other persons and circumstances.

F. Legal Obligations. This ILA does not relieve either port of any obligation or responsibility imposed upon it by law or bond covenant.

G. Copies Filed With County Auditor And Posted On Parties' Web Site:

Copies of this ILA shall be filed with the County Auditor's Office for each port after execution and posted on each ports' website listed by subject or other electronically retrievable public source, as allowed by RCW 39.34.040, and shall be filed with the respective port' Commissions.

H. Effectiveness and Duration. This ILA is effective upon the date of execution by both Ports, which will follow each Port's commission adoption. This ILA will remain in effect until the sooner of the Ports' execution of the Seaport Alliance Agreement or March 31, 2015, unless extended by mutual agreement of the Ports and unless terminated by either the POS or POT commission.

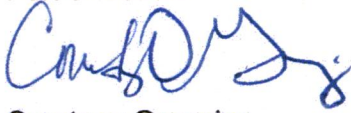
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[INTERLOCAL AGREEMENT SIGNATURE PAGE]

Dated this 14TH day of October, 2014.



Stephanie Bowman
Port Commission Co-President
Port of Seattle



Courtney Gregoire
Port Commission Co-President
Port of Seattle



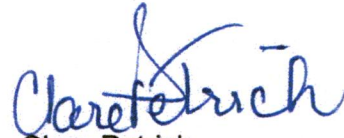
Tom Albro
Port Commissioner
Port of Seattle



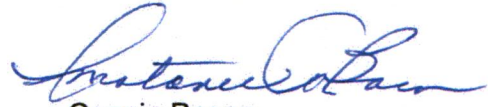
Bill Bryant
Port Commissioner
Port of Seattle



John Creighton
Port Commissioner
Port of Seattle



Clare Petrich
Port Commission President
Port of Tacoma



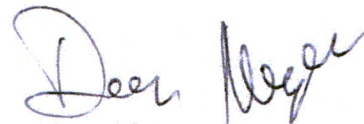
Connie Bacon
Port Commissioner
Port of Tacoma



Don Johnson
Port Commissioner
Port of Tacoma



Dick Marzano
Port Commissioner
Port of Tacoma



Don Meyer
Port Commissioner
Port of Tacoma

Appendix A

A preliminary list of each port's Assigned Assets expressly subject to further review and modification during the Seaport Alliance Due Diligence Phase.

Port of Tacoma--Assets Included**Container**

Husky Terminal / OCT
 Olympic Container Terminal
 Pierce County Terminal
 Washington United Terminal
 North Intermodal Yard
 West Sitcum Terminal (APM)
 Tote Terminal

Grain

Cargill Grain Terminal (TEMCO)

Intermodal

South Intermodal Yard

Terminals

Terminal 7 (A and B)
 Terminal 7 Warehouse
 East Blair Dock (EB1)
 Blair Terminal
 TPT Log Dock (Weyco)
 Auto Warehouse Facility
 Formark (Pony)

3401 Taylor
 2810 Marshall Ave.
 3319 Taylor

Port of Seattle--Assets Included**Container**

Terminal 5
 Terminal 18
 Terminal 25/30
 Terminal 46
 Terminal 115

Grain

Terminal 86

Industrial Properties

Terminal 5 Industrial North/South
 Terminal 10
 Pier 16/17
 Terminal 18 Bulk Terminals/Industrial
 Terminal 25 South
 Terminal 46 Industrial
 Terminal 103
 Terminal 104
 Terminal 107 uplands
 Terminal 106
 Terminal 106 Industrial
 Terminal 108
 Terminal 115-Cold Storage/Industrial