



Commissioners

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Stephanie Bowman
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**APPROVED MINUTES
COMMISSION REGULAR MEETING JULY 23, 2013**

The Port of Seattle Commission met in a regular meeting Tuesday, July 23, 2013, in the International Auditorium at Seattle-Tacoma International Airport, Seattle, Washington. Commissioners Albro, Bowman, Bryant, Creighton, and Gregoire were present.

1. CALL TO ORDER

The regular meeting was called to order at 12:05 p.m. by Tom Albro, Commission President.

2. EXECUTIVE SESSION pursuant to RCW 42.30.110

The regular meeting was immediately recessed to an executive session estimated to last approximately 70 minutes to discuss matters relating to legal risk and potential litigation. Following the executive session, which lasted approximately 65 minutes, the regular meeting reconvened in open public session at 1:15 p.m.

PLEDGE OF ALLEGIANCE

3. APPROVAL OF MINUTES

Minutes available for approval are included in the Unanimous Consent Calendar.

4. SPECIAL ORDER OF BUSINESS

None.

5. UNANIMOUS CONSENT CALENDAR

[Clerk's Note: Items on the Unanimous Consent Calendar are considered routine and are not individually discussed. Port Commissioners receive the request documents prior to the meeting and may remove items from the Consent Calendar for separate discussion and vote in accordance with Commission bylaws.]

5a. Approval of the minutes of the June 25, 2013, regular meeting.

Motion for approval of consent item 5a – Creighton

Second – Bryant

Motion carried by the following vote:

In Favor: Albro, Bowman, Bryant, Creighton, Gregoire (5)

PUBLIC TESTIMONY

As noted on the agenda, public comment was received from the following individual(s):

- Donnell Harvey, Regional Director of Corporate Real Estate, Delta Air Lines. Mr. Harvey commented on Delta's collaborative work with the Port on planning for a new International Arrivals Facility, noting the inadequacy of the current facility. Mr. Harvey announced Delta's new nonstop service between Seattle and London in 2014.
- Tom Norwalk, President and CEO of destination marketing organization Visit Seattle. Mr. Norwalk commented on his organization's hosting in 2013 of over 53 groups of media and tour operators from international tourism markets. He urged updating of the Port's International Arrivals Facility.
- Carla Murray, Senior Vice President of Operations for Starwood Hotels and Resorts. Ms. Murray commented on her experiences of international arrivals facilities throughout the world and urged expeditious upgrade of the Airport's International Arrivals Facility.
- Kati Quigley, Senior Director at Microsoft. Ms. Quigley commented on her work organizing large events around the world for Microsoft, which she stated spent over \$112 million in airfare for international travel in 2012, which she said accounted for about \$30 million in staff time. Ms. Quigley spoke in favor of improvement of the International Arrivals Facility.
- Sam Kaplan, President of the Trade Development Alliance. Mr. Kaplan commented on international trade and the importance of an updated International Arrivals Facility to the regional economy, including small and medium-sized businesses, international students, and tourism.
- Bret Matteson, President, Columbia Hospitality. Mr. Matteson spoke in support of improvements to the International Arrivals Facility and the importance of making a good impression on international travelers in order to compete in the areas of international conference centers and cruise operations.
- Commissioner Albro noted receipt of a letter from the Washington Council on International Trade signed by its president, Eric Schinfeld, and dated July 19, 2013. The letter supported improvements to the Airport's International Arrivals Facility. A copy of the document is, by reference, made a part of these minutes, is marked [Exhibit A](#), and is available for inspection in Port offices.
- Commissioner Albro also noted receipt of a letter from the Washington State China Relations Council signed by its president, Joseph J. Borich, and dated July 16, 2013. The letter supported improvements to the Airport's International Arrivals Facility. A copy of the document is, by reference, made a part of these minutes, is marked [Exhibit B](#), and is available for inspection in Port offices.

6. DIVISION, CORPORATE, AND COMMISSION ACTION ITEMS

- 6a. Authorization for the Chief Executive Officer to (1) authorize preliminary project funding of \$3,500,000 for the new International Arrivals Facility (IAF) at Seattle-Tacoma International Airport; (2) execute a consultant service agreement for program and project management support services; and (3) authorize the use of Price Factors Design/Build methodology for project delivery of the IAF building to be located adjacent to Concourse A.**

Request document(s) provided by Michael Ehl, Director, Airport Operations, and Wayne Grotheer, Director, Aviation Project Management:

- Commission agenda [memorandum](#) dated July 16, 2013.

Presenter(s): Mr. Ehl and Mr. Grotheer.

The Commission received a presentation that included the following relevant information:

- On June 14, 2011, the Commission received a briefing on growth of international air service and challenges facing the Airport's International Arrivals Facility, or Federal Inspection Services facilities. Another briefing on this subject was conducted July 9, 2013.
- The requested action includes initial project funding, procurement of consultant services, and approval of the project delivery method for the facility.
- The total estimated cost of the International Arrivals Facility program is \$250 million to \$400 million. Initial funding of \$3.5 million should be adequate until the spring of 2014.
- The size and complexity of the program require a combination of staff and consultant resources to ensure successful project delivery while controlling spending and schedule progress. Other programs using a similar process involving program and project management support include the Consolidated Rental Car Facility and the NorthSTAR program. For similar programs, program management costs have been approximately 5.5-6.6 percent of total program cost.
- Work under the consultant contract will be authorized by service directives consistent with Commission budget authorizations.
- Use of the price-factors design/build project delivery method requires approval by the Washington Project Review Committee, which will be sought upon Commission approval.
- Commission approval will be sought prior to procurement of a design-build team and again prior to beginning construction.
- A new International Arrivals building is the largest and most costly component of either design option previously presented to the Commission, and the project delivery method is proposed based on consideration of cost, schedule, quality and aesthetics, implementation and risk, and stakeholder involvement.
- Under the price-factors design/build methodology, the Port will contract with a designer/contractor team selected based on team qualifications and price factors. Pricing of construction phases is established using detailed estimates and agreed overall price factors once further design is complete.
- The price-factors design/build project delivery method is expected to leverage innovative teamwork to deliver a quality project, cost control, and a shorter schedule.
- Two critical design decisions still pending include whether the new arrivals facility will be arranged with dual processing of passengers on the South Satellite and Concourse A or with passenger processing only in a new building adjacent to Concourse A and whether the South Satellite and Concourse A will be connected by a bridge or tunnel. Regardless of the outcomes of those two decisions, the request before the Commission today would be necessary.

Motion for approval of item 6a – Bryant

Second – Creighton

Motion carried by the following vote:

In Favor: Albro, Bowman, Bryant, Creighton, Gregoire (5)

6b. Request (1) unanimous consent to adopt Resolution No. 3682 at the same meeting at which it is first introduced, as required by Article VIII, Section 1, of the Commission Bylaws; and (2) First Reading and Second Reading and Final Passage of Resolution No. 3682: A Resolution of the Port Commission of the Port of Seattle declaring Heavy Lift Truck No. 25 surplus for Port District purposes and authorizing the Chief Executive Officer to execute all documents necessary for its sale or disposal.

Request document(s) provided by Mike McLaughlin, Director, Cruise and Maritime Operations, and MaryAnn Lobdell, Manager, Marine Maintenance Compliance and Fleet:

- Commission agenda [memorandum](#) dated July 12, 2013.
- [Resolution No. 3682](#).

There was no presentation at this time; however, the request documents were distributed for review prior to the meeting of July 23, 2013.

Motion to waive the requirement of Article VIII, Section 1, of the Commission Bylaws that Resolution No. 3682 not be adopted at the same meeting at which it is introduced – Bryant

Second – Gregoire

Motion carried by the following required unanimous vote of all Commissioners:

In Favor: Albro, Bowman, Bryant, Creighton, Gregoire (5)

Motion to adopt [Resolution No. 3682](#) – Bryant

Second – Gregoire

Motion carried by the following vote:

In Favor: Albro, Bowman, Bryant, Creighton, Gregoire (5)

7. STAFF BRIEFINGS

7a. 2013 Second Quarter Financial Performance Briefing.

Presentation document(s) provided by Dan Thomas, Chief Financial and Administrative Officer, and Michael Tong, Corporate Budget Manager:

- Commission agenda [memorandum](#) dated July 16, 2013.
- [Presentation](#) slides.
- The Second Quarter Financial Performance Report was not available at this time.

Presenter(s): Mr. Thomas; Mr. Tong; Ralph Graves, Director, Capital Development Division; Mark Reis, Managing Director, Aviation Division; Boni Buringrud, Manager, Seaport Finance and Budget; and Linda Styrk, Managing Director, Seaport Division.

The Commission received a presentation that included the following relevant information:

Port-wide Overview

- A detailed second quarter financial performance report is expected to be distributed to Commissioners by July 26, 2013.
- Port-wide total operating revenue in the second quarter was \$240 million, which was \$16.8 million below revised budget. Over \$15 million of the variance is due to timing considerations.
- Total operating expenses were \$146 million, which was \$14.5 million, or about nine percent, below revised budget.
- Net income before depreciation was \$2.3 million, 2.4 percent below revised budget.
- Major revenue variances included aeronautical revenue \$15.4 million below revised budget due to current landing fee rates and rental fee rates that are based on 2002 rates that have yet to be updated to 2013. Accrual is expected by the end of the third quarter, which should resolve the variance. Revenue from concessions, grain, and conference and events centers were under budget in the second quarter. Along with other non-aeronautical revenue variances, these accounted for a shortfall of about \$1.2 million. If corresponding reductions in expenses are factored in, the net shortfall would be about \$800,000 below revised budget.
- Total major expense variances were approximately \$14.5 million below revised budget, due to a combination of actual savings and delays in spending. Overspending in the “other expenses” category of about \$1.8 million is due to \$4.9 million environmental remediation expenses for the Lora Lake cleanup that were not in the revised budget.
- The variance of approximately \$10 million unspent for outside services is most likely due to timing of spending.
- Aeronautical revenue is projected to be about \$2.9 million above revised budget by the end of 2013. “Other operating revenue” is expected to be about \$4.7 million below revised budget by the end of 2013. This is mostly due to the variances noted earlier in concessions, grain, and conference and events center revenues.
- Savings in all divisions is expected to yield total operating expense savings of \$63,000. Net operating income before depreciation is expected to be approximately \$1.7 million below revised budget at year end.

Moody’s Ratings Outlook Change

- Bond-rating agency Moody’s recently reviewed the Port’s revenue bond credit rating and confirmed the Port’s Aa2 senior lien bond rating, the highest available category. This rating is among the highest for Ports and Airports nationally. There is no other airport in the U.S. with a rating of Aa2.
- Moody’s also expressed concern looking forward 1-2 years due to competitive pressures on the Seaport and prolonged negotiations with the airlines to achieve a new rate structure or lease agreement. Moody’s altered its 1-2 year outlook for the Port from “stable” to “negative.” The outlook is subject to change depending on circumstances.

Corporate Summary

- Operating revenue was \$45 million above revised budget in the second quarter, due in part to receipt of an unbudgeted police grant.
- Actual savings and delays in hiring contributed to Corporate expenses being about \$3.7 million below revised budget.
- Year-end forecast is for Corporate to be approximately \$1.3 million below revised budget, despite about \$378,000 in unexpected outside legal fees.

Capital Development Division

- The division is making improvements in tracking of small business subcontracting. The Port actively participated in renewing the ability under state law to use alternative public works contracting, such as the recently approved price-factors design/build project delivery methodology approved today for construction of a new International Arrivals Facility at the Seattle-Tacoma International Airport.
- Capital Development provided support in submitting a grant application to the U.S. Department of Transportation for approximately \$20 million in Transportation Investment Generating Economic Recovery (TIGER) funding. Projects covered would include dock rehabilitation at Terminal 46, stormwater improvements, paving, crane rail extension, a connecting road to the Argo rail yard, and Terminal 117 public shore access. The total cost for these projects is estimated at \$65 million.
- Due largely to keeping project staffing low, at about 10 percent understaffed, Capital Development expenses in all groups are below revised budget for the second quarter. This offsets increased expenses, such as the emergency drainage work at Terminal 115, unanticipated legal costs, and additional costs of the Airline Realignment project.

Aviation Division

- The negative variance for total operating revenues of approximately \$15.5 million is principally due to the fact that landing fees and terminal rents are currently being collected based on 2012 carryover rates as opposed to the proposed 2013 rates and charges upon which the revised budget was based.
- Approximately \$8 million in operating expenses have been saved during the second quarter due to vacant positions and delays in spending, such as consulting services for the Airport Master Plan revision.
- Spending on environmental liabilities shows a negative variance of about \$2.9 million, which offsets second quarter savings.
- Year-end projections for aeronautical revenue are expected to be close to revised budget. Should an airline lease be agreed upon before the end of the year, the amounts will have to be adjusted accordingly.
- Environmental remediation for the lake portion of the Lora Lake site is a project on the airfield and therefore is accounted for as a cost of operating the airfield.
- Cost per enplanement was forecasted in the original budget at \$13.80 and is currently forecasted at \$13.59. If a new airline lease agreement is executed, cost per enplanement may end up somewhere between those amounts.

Seaport

- Twenty-foot equivalent unit (TEU) container volume is down 790,000 TEUs in the second quarter, a drop of 22 percent from the same quarter in 2012.
- By year-end, Seaport anticipates a volume of 1.66 million TEUs, a drop of 12 percent from 2012.
- TEUs for consolidated West Coast ports in the second quarter increased one percent. Los Angeles/Long Beach increased 1.5 percent; Seattle/Tacoma decreased 0.9 percent; and Prince Rupert and Vancouver, British Columbia, increased two percent.
- Grain volume was at 285,000 metric tons, a 91-percent drop from the second quarter of 2012 and 83 percent lower than 2013 budget.
- United Arab Shipping Company commenced vessel calls at Terminal 30 in June 2013.
- Net operating income is \$1.6 million above revised budget owing to savings in expenses. Total revenue is \$831,000 below revised budget due to the drop in grain volume.
- Year-end expenses are projected to be about \$570,000 favorable to revised budget, due primarily to open positions.
- Year-end revenue is projected to be about \$3.6 million below budget due to loss of grain revenue and an expected variance on Terminal 18 crane rent resulting from the likelihood that the operator will not execute the 250,000 lifts necessary for the minimum crane rent to apply.

Real Estate

- Net operating income is projected to meet revised budget by the end of the year, due to reduced revenue being offset by lower expenses. Revenue is expected to be down \$1.5 million, the same amount that expenses are expected to be reduced.
- Commercial properties, which are leased at market rates, have an occupancy rate of 91 percent, slightly above the Seattle market average of 89 percent. Fishermen's Terminal and the Maritime Industrial Center have an average occupancy rate of 77 percent, slightly below the target of 78 percent. Recreational marinas have occupancy of 96 percent, above the 92-percent target.
- Competitive challenges facing activity at the Conference and Events Center include new venues and expansion of existing venues in the market. A perception of traffic issues on the waterfront also affects event center activity.
- Total revenue is under budget by more than \$600,000, owing to conference center revenue shortfalls. Expenses are also lower.
- Maintenance expenses for the Seaport Division are below budget mostly due to timing of spending. Capital development expenses related to the Fishermen's Terminal net shed code compliance project are also below budget due to project timing.

Commissioner Albro commented on the practice of budgeting based on prior year's budget, and requested revision of year-end projections in order to project closer to actual year-end conditions.

7b. July 23, 2013, Budget Retreat Summary.

Chief Executive Officer Tay Yoshitani commented on the Commission's July 23, 2013, morning budget retreat, noting the following relevant information:

- The retreat format for budget discussion between the Commission and senior executives is a new practice intended to improve the Port's budget process by soliciting Commission input earlier in the process.
- Discussion attempted to apply Century Agenda 25-year goals and Division 5-year milestones to the budget process for 2014.
- Staff was able to gather information on Commission interests and provide context to the Commission on the complexities of various issues affecting budget decisions.

Commissioner Albro commented on the retreat process and noted recognition of the value of real estate in service to the mission of the Port. He pointed out that it can also be a drain on the organization if not put to productive use. He stated there is willingness to review the Port's real estate portfolio in light of the Century Agenda and that the Commission would be engaging with staff to develop a strategic approach to steward the Port's real estate in service of its larger mission. Commissioner Albro noted that a discussion of real estate necessarily involves discussion of the Seaport and its interdependence on land-use, transportation, and market positioning factors. He proposed further discussion on these issues with outside partners. He concluded by commenting on the need for strategic alignment and organizational focus in order to succeed financially and in carrying out the mission of the Port.

8. NEW BUSINESS

None.

9. POLICY ROUNDTABLE

None.

10. ADJOURNMENT

There being no further business, the regular meeting was adjourned at 2:30 p.m.

Bill Bryant
Assistant Secretary
Minutes approved: August 20, 2013.