

Enterprise Risk Management (ERM) Project

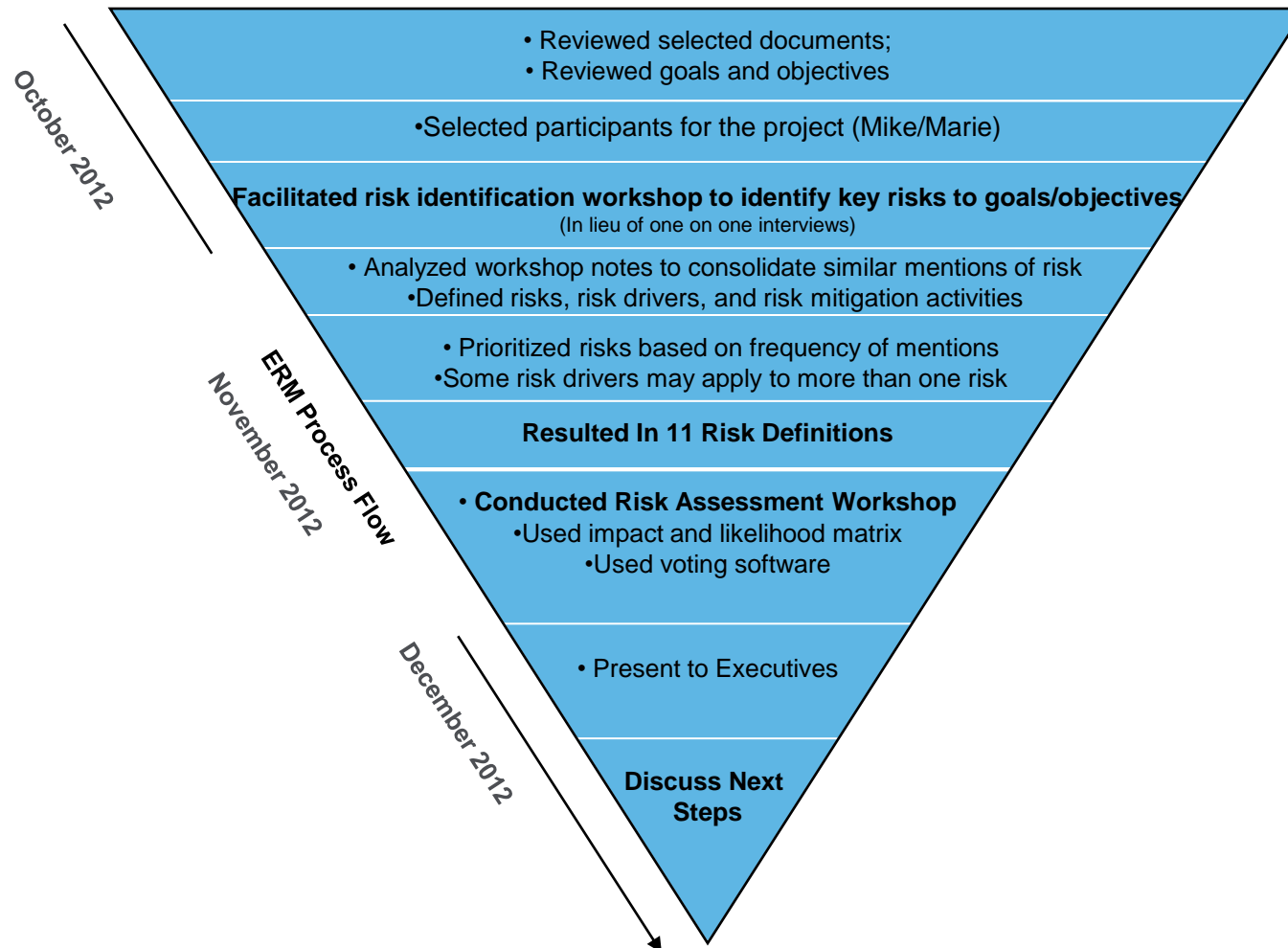
Seaport Cruise Operations

Summary Report to the Audit Committee
February 5, 2013

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Focusing on the Most Critical Risks to Seaport Cruise Operations



From “Seaport Commercial Strategies” document, “Objectives”***

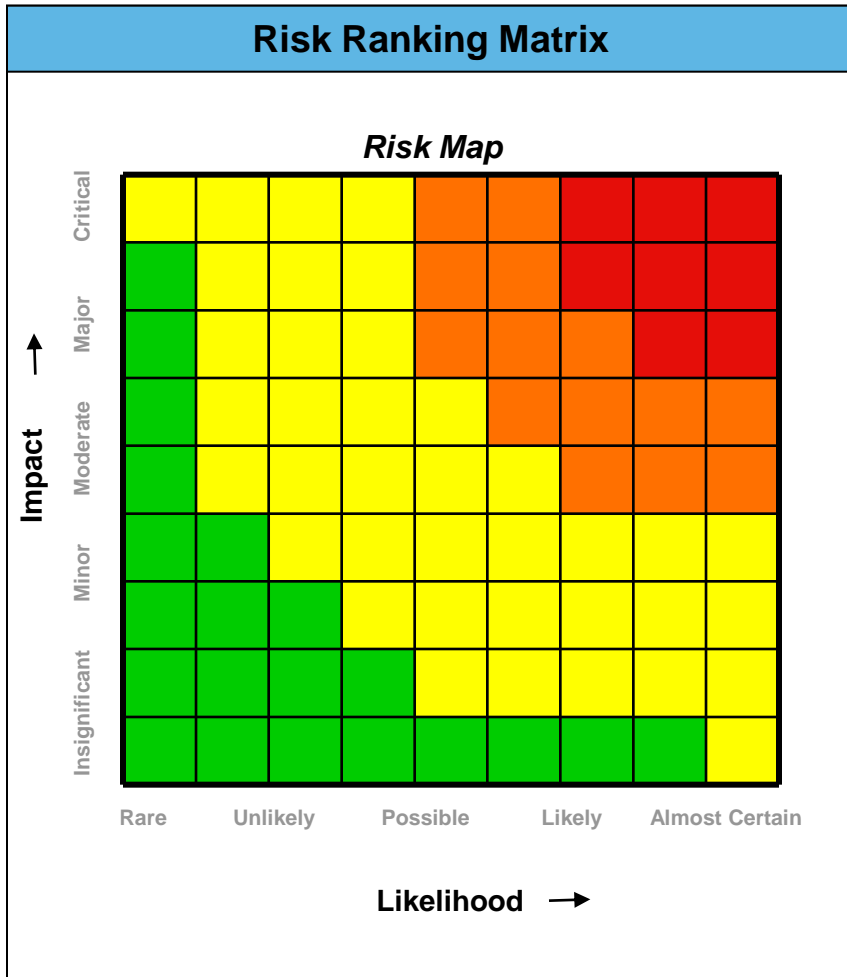
1. By 2015, increase annual passenger volumes to over 1 million and annual vessel calls to over 250
2. Maintain the Seaport’s financial independence.
3. Build broad public understanding and acceptance of Seaport activities contributing to economic sustainability of Seattle and the region.

From “Cruise and Maritime Operations” document, “Key Goals”***

4. Commercial Strategy – Enhance regional economic development by increasing utilization of Port related facilities and volume of cruise passengers moving through the Port’s terminals resulting in improvement of the Seaport’s Net Operating Income
5. Asset Stewardship - Perform proper maintenance on current assets and align asset investment to support long term market demand.
6. Green Gateway/Environmental – Maintain compliance with all local, state, and federal regulations. Collaborate with industry to reduce environmental impacts. Engage stakeholders and community to build understanding and support

*** As defined on October 16th Workshop

Initial Prioritization Based Upon Assessments of Impact and Likelihood



Risk Ranking Overview

- Risk Ranking provides an initial means of prioritizing assessed risks based upon assessments of Impact and Likelihood
- Risk Rankings are used to identify a risk’s position on a Risk Map (see chart to left)

Risk Ranking Calculation Steps

- Multiply the Impact assessment (on a scale of 1-9 with 9 being the highest impact and 1 being the lowest) and the Likelihood assessment (on a scale of 1-9 with 9 being the highest likelihood and 1 being the lowest) for each risk
- Reference the product against a range of values (see table below)

Risk Rankings	
<i>Risk is ranked as...</i>	<i>...if the product of Impact & Likelihood is...</i>
VERY HIGH	Greater than 49.0
HIGH	Greater than 27.0 , but less than 49.0
MEDIUM	Greater than 9.0 , but less than 27.0
LOW	Less than 9.0

RISK ASSESSMENT WORKSHEET

SEAPORT CRUISE OPERATIONS-RISK MATRIX



LIKELIHOOD		IMPACT					
Measure	Description	Description	Financial (US\$)	Operational	Compliance/Security	Community	Environmental
ALMOST CERTAIN Something already happening on a regular basis.	Almost Certain	Critical	Revenue shortfall of more than 25% below projections in budget.	Operational budget expense increases that were not forecast and that exceed budgeted costs by more than 50%. Force subsidy by dipping into the tax levy income.	Multiple incidents of non-compliance with security regulations or national security threats that result in closure of both Pier 66 and T-91 terminal for 3 weeks during the middle of the cruise season.	Sustained, longer than four days, multi-media negative international and national media coverage regarding cruise and or cruise operators. For example a top/front page story.	Environmental compliance regulations that curtail the usage of either P-66 and T-91 by limiting the number of day the terminal could be used to 3 days a week and/or shortening the season to June through August. Both facilities impacted.
LIKELY Something already happening on a regular basis but overall temporary in nature.	Likely	Major	Revenue shortfall of more than 20% below projections in budget.	Operational budget expense increases that were not forecast and that exceed budgeted costs by more than 40%. Force subsidy by dipping into the tax levy income.	Multiple incidents of non-compliance with security regulations or national security threats that result in closure of either terminal for 2 weeks during the middle of the cruise season.	Sustained, 2-4 days, multi-media negative international and national media coverage regarding cruise and or cruise operators. For example a top/front page story.	Environmental compliance regulations that curtail the usage of either P-66 or T-91 by limiting the number of day the terminal could be used to 3 days a week and/or shortening the season to June through August. Only one facility impacted.
POSSIBLE Something not happening currently, but anticipated to happen.	Possible	Moderate	Revenue shortfall of more than 15% below projections in budget.	Operational budget expense increases that were not forecast and that exceed budgeted costs by more than 25%. Force subsidy by dipping into the tax levy income.	Multiple incidents of non-compliance with security regulations or national security threats that result in closure of either terminal for 1 week during the middle of the cruise season.	Local news focus for 2 days regarding cruise and or cruise operators. Makes evening news and the front page.	Environmental compliance regulations that curtail the usage of either P-66 or T-91 for 3-5 days in mid cruise season.
UNLIKELY Something not happening but it could in very infrequent cycles.	Unlikely	Minor	Revenue shortfall of more than 10% below projections in budget.	Operational budget expense increases that were not forecast and that exceed budgeted costs by more than 10%. Force subsidy by dipping into the tax levy income.	Isolated incidents of non-compliance with security regulations or national security threats that result in closure of a terminal for 1-5 days during the middle of the cruise season.	Local news focus for one day only regarding cruise and or cruise operators. Makes some talk show coverage, and an article in the paper; not all TV stations provide cover or mention the event.	Environmental compliance regulations that curtail the usage of either P-66 or T-91 for 1 day in mid cruise season.
RARE Something not happening and not anticipated to happen.	Rare	Insignificant	Revenue shortfall of less than 10% below projections in budget.	Operational budget increases that were not forecast are limited to less than 10%.	No compliance concerns security threats reported through various channels; No fines or legal judgments against the Port. Any closure is limited to less than 24 hours.	No negative or adverse media coverage on cruise industry;	No environmental regulations that restrict Port's use of the facilities at P-66 and T-91.

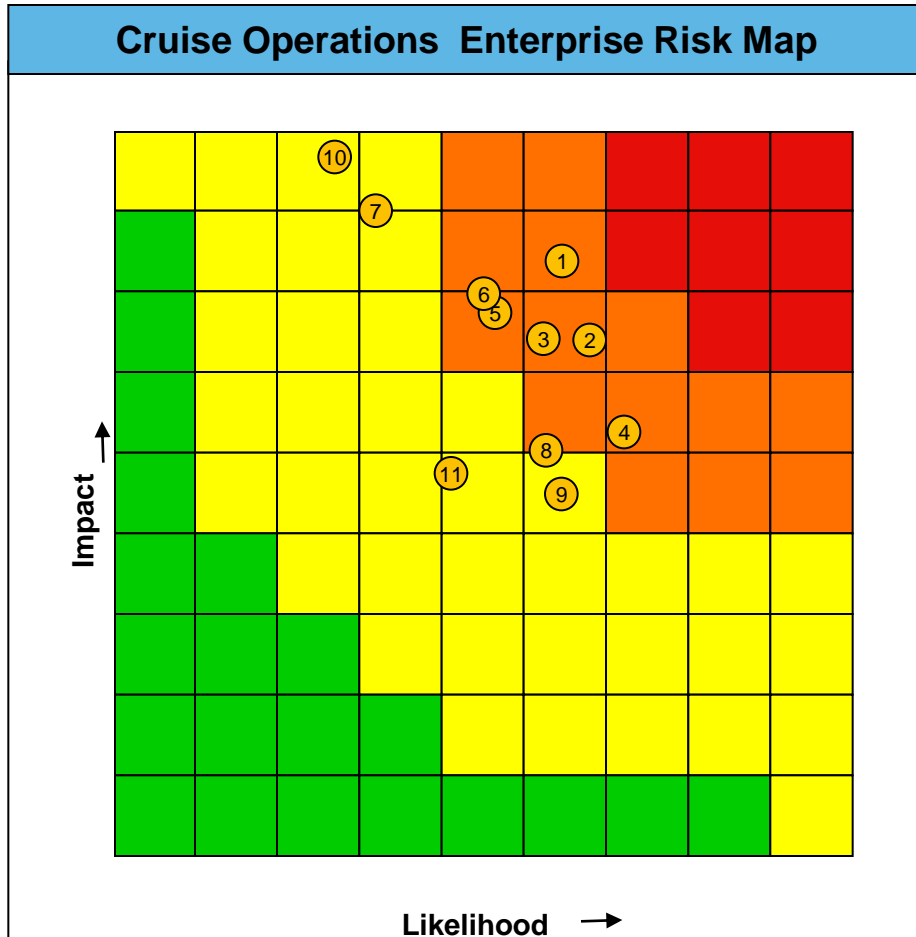
Risk Assessment & Prioritization Workshop Results

Seaport Cruise Operations - Risks Prioritized to Risk Ranking

Rank	Risk Name/ Risk Definition	Likelihood	Impact	Risk Ranking
1	RD11 – Costs: Risk that rising operating costs could make continuing to use Seattle as home port unsustainable.	5.50	7.40	40.70
2	RD-3 - Environmental Constraints: Risk that environmental regulations could limit facility use and growth thus reducing opportunities to increase the ROI and NOI.	5.80	6.40	37.12
3	RD-5 - Increase of Maintenance Costs: Risk that the increased maintenance costs could result in more deferral of maintenance constraints and reduce the ROI and NOI associated with improvements and increased revenue. Deferral of maintenance could result in more frequent breakdowns which during cruise season could interrupt or delay sailings.	5.30	6.40	33.92
4	RD-1 - Future Investments: Risk that future investments could be more costly and limit opportunities to increase the ROI and NOI.	6.10	5.30	32.33
5	RD-7 - Cruise Lines Reduce Vessel calls: Risk that the cruise operators decrease their interest and vessels devoted to the Alaska cruise market or to Seattle as a home port thus decreasing the number of passengers and vessel calls for the Port.	4.60	6.90	31.74
6	RD-6 - Demand for Cruise Goes Down: Risk that the demand for Alaska cruises decreases resulting in a reduced number of passengers and consequently a reduced number of vessel calls for the Port.	4.50	7.00	31.50
7	RD-9 - Localized Event/Disaster Shuts Down Facilities: Risk that a sudden unexpected event, such as a labor strike or medical outbreak or mechanical breakdown forces an extended shutdown mid-season for up to four weeks.	3.40	8.00	27.20
8	RD-8 - Port Facilities Cannot Accommodate Increased Demand: Risk that the facility size limitations do not allow the Port to reach the targeted number of 250 vessel calls.	5.20	5.00	26.00
9	RD-2 - Seasonal Constraints: Risk that the constraints around seasonal facility use limit opportunities to increase the ROI and NOI. A lack of year round diverse income streams.	5.50	4.50	24.75
10	RD-10 - Area Wide Disaster Shuts Down Facilities For Entire Season: Risk that a sudden unexpected event, such as an earthquake results in major facility damage thus forfeiting an entire cruise season. (Example: 9/11 type of event resulting in direct hit or ripple effect.)	2.60	8.70	22.62
11	RD-4 - Lack of Regional Support for Cruise: Risk that at the State and Local government levels, there is little support through incentives, lobbying, or outreach to cruise lines to invest in cruise operations at Port facilities.	4.20	4.90	20.58

Risk Assessment & Prioritization Workshop Results

Seaport Cruise Operations - Enterprise Risk Map Showing Assessed Risks



Rank	Risk Name	Risk Ranking
1	RD-11 Costs	40.70
2	RD3 - Environmental Constraints	37.12
3	RD5 - Increase of Maintenance Costs	33.92
4	RD1 - Future Investments	32.33
5	RD7 - Cruise Lines Reduce Vessel Calls to Seattle	31.74
6	RD6 - Demand for Cruise Goes Down	31.50
7	RD9 - Localized Event/Disaster Shuts Down Facilities	27.20
8	RD8 - Port Facilities Cannot Accommodate Increased Demand	26.00
9	RD2 - Seasonal Constraints	24.75
10	RD10 - Area Wide Disaster	22.62
11	RD4 - Lack of Regional Support for Cruise	20.58

Workshop participants assessed each risk on two criteria:

- The estimated likelihood of a risk’s occurrence
- The estimated impact of a risk’s occurrence on Seaport Cruise Operations’ ability to meet its strategic objectives

The assessments of Impact and Likelihood are used to develop Risk Maps to focus management attention on the most critical risk risks.

Risk Definition RD-11

RD11 - Costs: Risk that rising operating costs could make continuing to use Seattle as a home port unsustainable.

Risk Drivers

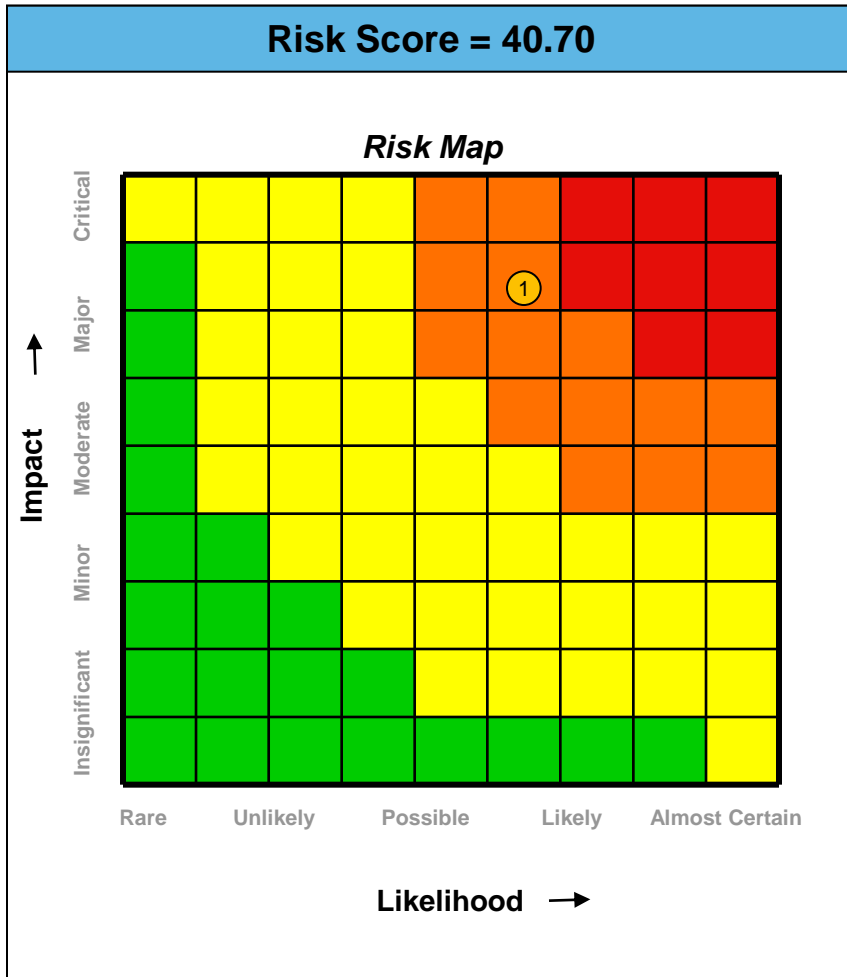
- Fuel costs increase dramatically, expected to increase by \$4-\$5Million between 2012-2015 due in part to cleaner fuel requirement within 200 miles of shoreline (ECA)
- Cost to travel to Seattle from other parts of the country are on the rise
- Labor costs put Seattle at a competitive disadvantage (i.e., costs in Seattle are very high)
- Unfunded security mandates

Existing Risk Management Activities

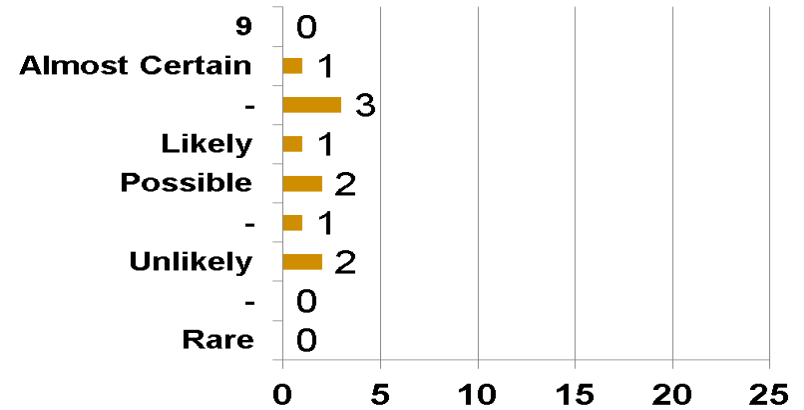
- Stay educated on upcoming technology to increase fuel efficiencies and keep updated on the cruise line's efforts to use emissions averaging and other equivalencies to stay in compliance with the Emission Control Area (ECA).
- Ongoing relations/communication with labor leadership. Seaport leadership routinely meets with union representatives.
- Lease administration/management

Seaport Division - Workshop Results: Seaport Cruise Operations

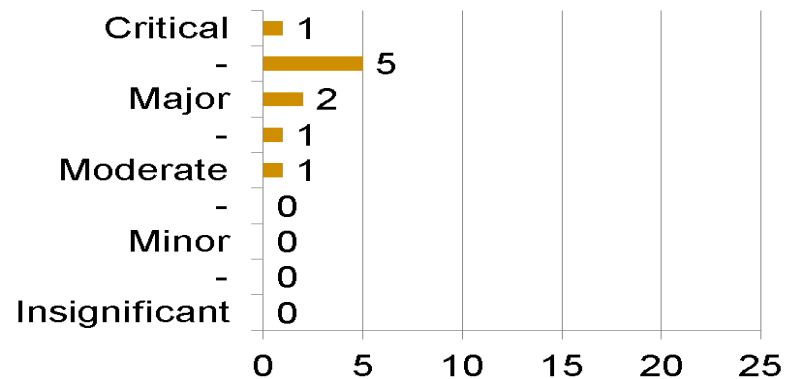
RD11 - Costs: Risk that rising operating costs could make continuing to use Seattle as a home port unsustainable.



Likelihood Mean Score: 5.50

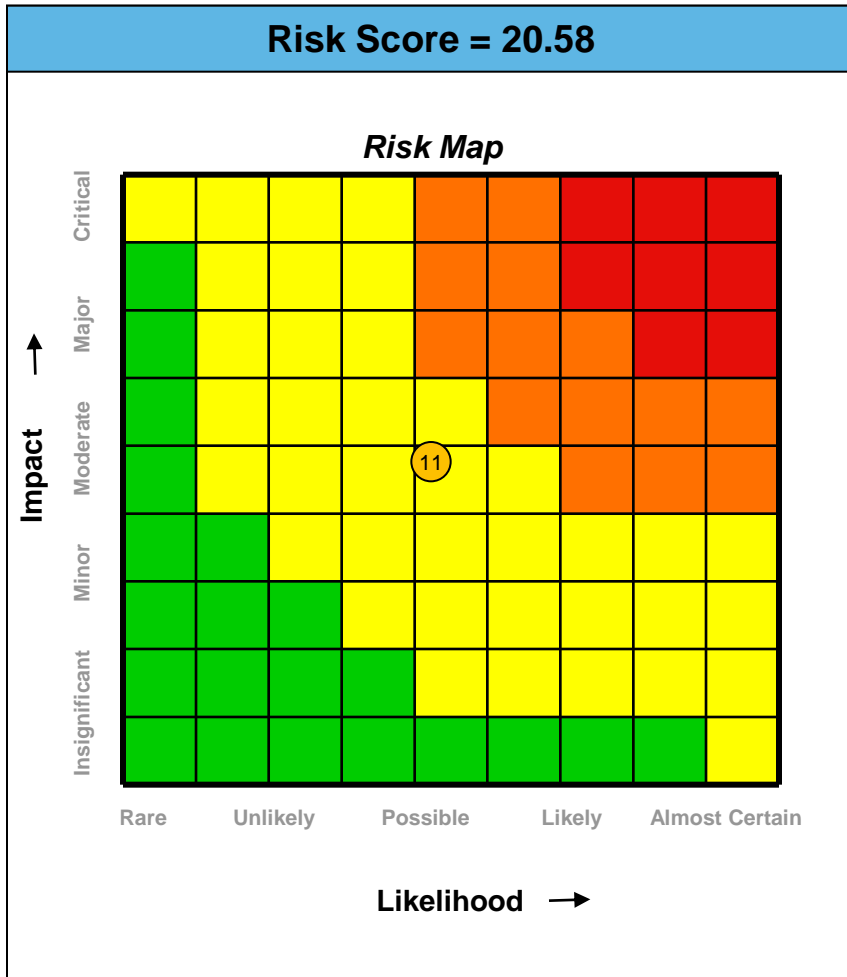


Impact Mean Score: 7.40

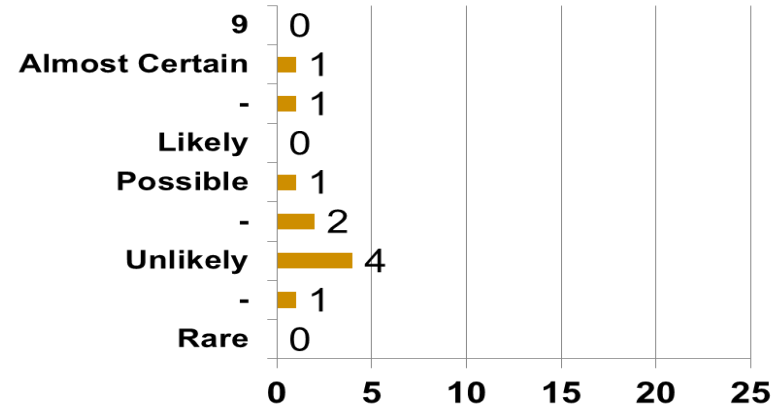


Seaport Division - Workshop Results: Seaport Cruise Operations

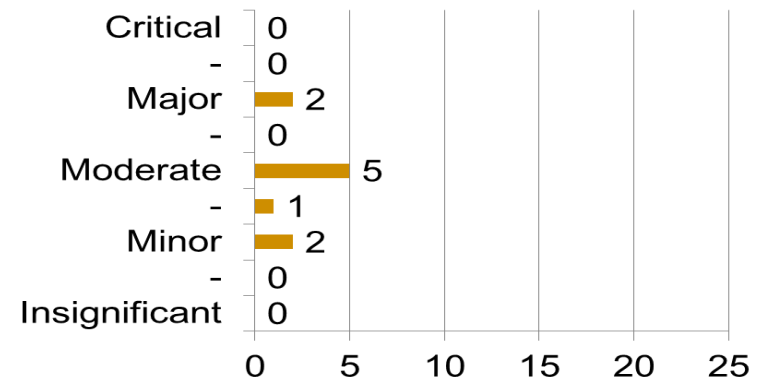
RD4 - Lack of Regional Support for Cruise: Risk that at the State and Local governmental levels, there is little support through incentives, lobbying, or outreach to cruise lines to invest in cruise operations at Port facilities.



Likelihood Mean Score: 4.20



Impact Mean Score: 4.90



Possible Next Steps for Consideration

- Assess current mitigation efforts for identified risks or top priority risks
 - Evaluate if sufficient to reduce or eliminate the risk?
 - Evaluate if current mitigation is necessary to reduce or eliminate the risk?
 - Ask whether mitigation is aligned with risk tolerance thresholds?
 - Determine any budget impacts for risk mitigation

- Create integrated risk mitigation plans and identify sponsor and set timeline

- Implement and monitor integrated risk mitigation plans

Items Open for Port Discussion

- **Where does Port take ERM moving forward and what do we do with ERM results?**
 - ERM assessment versus performance audit
 - Response to findings
 - Mitigation efforts – funding for

- **Who is the audience for reporting ERM findings?**
 - Audit Committee versus Commission or both
 - Division finance and budget

- **Establish Roles & Responsibilities and Policies & Procedures**
 - What is the merit of establishing an ERM process and identify ERM roles and responsibilities

- **Establish Initial Risk Reporting Framework**
 - Should formal reporting tools and approaches for ERM results be created?

- **Define Risk Appetite and Tolerances – Recommendation from Last Year’s Consultants**
 - Formally define the Port’s risk appetite and establish a consistent and documented approach to understanding risk drivers, risk management options, and governance for key risks