



**Commissioners**

Stephanie Bowman  
Commission Co-President  
Courtney Gregoire  
Commission Co-President  
Tom Albro  
Bill Bryant  
John Creighton

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Chief Executive Officer

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**APPROVED MINUTES  
COMMISSION REGULAR MEETING FEBRUARY 25, 2014**

The Port of Seattle Commission met in a regular meeting Tuesday, February 25, 2014, in the International Auditorium at Seattle-Tacoma International Airport, Seattle, Washington. Commissioners Albro, Bowman, Bryant, Creighton, and Gregoire were present. Commissioner Bryant was absent after 3:03 p.m.

**1. CALL TO ORDER**

The regular meeting was called to order at 12:02 p.m. by Courtney Gregoire, Commission Co-President.

**2. EXECUTIVE SESSION pursuant to RCW 42.30.110**

The regular meeting was immediately recessed to an executive session estimated to last 90 minutes to discuss matters relating to labor negotiations, legal risk, sale or lease of real estate, and qualifications of a public employee. Following the executive session, which lasted approximately 90 minutes, the regular meeting reconvened in open public session at 1:39 p.m.

**3. MINUTES**

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

**PLEDGE OF ALLEGIANCE**

**4. SPECIAL ORDERS 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 [claims and obligations](#) for the period of January 1, 2014, through January 31, 2014, including accounts payable checks nos 820599-821533 in the amount of \$40,279,113.70 and payroll checks nos P-175853-176122 in the amount of \$12,027,232.57 for a fund total of \$52,306,346.27.

- 5b. Authorization for the Chief Executive Officer to: (a) issue Change Order No. 181 for Contract MC-0316677, Centralized Pre-Conditioned Air Project at Seattle-Tacoma International Airport, in the amount of \$531,930 to address the undisputed costs for subcontractor extended overhead expenses related to a schedule extension and to extend contract time to December 13, 2013; and (b) approve an additional authorization of \$850,000 to replenish construction contingency due to resolution of disputed costs. (CIP #800238)**

Request document(s) provided by Ralph Graves, Managing Director, Capital Development Division, Wayne Grotheer, Director, Aviation Project Management Group and Janice Zahn, Assistant Director of Engineering, Construction Services:

- Commission agenda [memorandum](#) dated February 4, 2014.

- 5c. Authorization for the Chief Executive Officer to design, advertise, and execute a major works contract and execute a contract to purchase equipment to take two existing gates at the South Satellite that are currently configured for domestic, narrow body aircraft only and modify them to accept international, widebody aircraft operations. The amount of this request is \$4,850,000. (CIP #C800662)**

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

- Commission agenda [memorandum](#) dated February 18, 2014.
- [Project site plan](#) of the South Satellite.

- 5d. Authorization for the Chief Executive Officer to (1) increase the budget for the FIS Short Term Improvements project by \$208,000 and (2) execute a major public works construction contract with the low responsible bidder, notwithstanding the low bid exceeding the engineer's estimate by more than 10 percent. The new authorized total project cost will be \$1,912,000. (CIP #C800426)**

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

- Commission agenda [memorandum](#) dated February 18, 2014.

**Motion for approval of consent items 5a, 5b, 5c, and 5d – Creighton**

**Second – Albro**

**Motion carried by the following vote:**

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

### **PUBLIC TESTIMONY**

An opportunity for public comment was provided, but no testimony was offered at this time.

**6. DIVISION, CORPORATE, AND COMMISSION ACTION ITEMS**

- 6a. Authorization for the Chief Executive Officer to (1) direct staff to proceed with project management, design, and preparation of final construction documents for the Runway 16C/34C Reconstruction project at Seattle-Tacoma International Airport; (2) execute a contract for an automated foreign object debris detection system; (3) perform advance preparatory work to include the advertisement and execution of a contract to install a temporary traffic signal on S. 154<sup>th</sup> St.; (4) enter into one or more agreements with the Federal Aviation Administration for the evaluation of impacts, relocation of utilities, installation of runway lighting, performance of flight checks, and other support needed as part of the Runway 16C/34C reconstruction project; and (5) approve use of a project labor agreement for the Runway 16C/34C reconstruction project. The amount of this request is \$10,408,000 of a total estimated project cost of \$102,863,000. (CIP #C800406)**

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

- Commission agenda [memorandum](#) dated February 18, 2014.
- Presentation [slides](#).

Presenter(s): Ralph Wessels, Capital Project Manager, and Mark Coates, Senior Manager, Airport Operations.

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

- The Port has more than doubled the life of the Center Runway through a process of continual maintenance efforts, extending the runway's useful life from 20 to 45 years.
- Thousands of Center Runway panels have been replaced, patched, or have suffered defects.
- In 2013, there were 20 unexpected runway closures due to deteriorated concrete.
- Safety inspections are currently performed daily on the Center Runway.
- In connection with rebuilding the runway to satisfy safety and maintenance concerns, it is also planned to correct alignment at the Taxiway H/J location to prevent runway incursions by aircraft.
- The remediation of Taxiway H/J may allow the taxiway to be used at night, which is currently not allowed due to runway incursion risks.
- Closure of the Center Runway during its rebuilding will require diversion of aircraft for slightly less than six months in 2015 to Runway 16R/34L, the Third Runway.
- The technology for automatic foreign object debris detection was described.

**Motion for approval of item 6a – Creighton**

**Second – Bowman**

**Motion carried by the following vote:**

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

**6b. Authorization for the Chief Executive Officer to advertise for construction bids, execute construction contracts, and fund the construction phase to complete the Pier 69 Built-Up Roof Project for a total estimated project cost of \$3,418,000. (CIP #C800314)**

Request document(s) provided by Nick Milos, Manager, Corporate Facilities, and Rod Jackson, Capital Construction Project Manager:

- Commission agenda [memorandum](#) dated February 18, 2014.
- Presentation [slides](#).

Presenter(s): Mr. Milos, Mr. Jackson, and Joe McWilliams, Director, Real Estate Division.

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

- There are two roofing systems at Pier 69 that are about 22 years old.
- Construction would occur between June and October 2014.
- The built-up roof system will be demolished and replaced and new fall protection will be installed pursuant to current code requirements.
- The new roof will be warranted for 25 years and is expected to last 30 or more years with proper maintenance.
- Roof parapets will be raised to accommodate increased insulation thickness.
- Project costs over the original budget are due to design modifications resulting from lessons learned from similar recent roof replacements.
- Value and marketability factors for the Pier 69 facility were outlined.

**Motion for approval of item 6b – Albro**

**Second – Creighton**

**Motion carried by the following vote:**

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

**6c. Authorization for the Chief Executive Officer to advertise and execute a service agreement for benefits consulting and brokering services. This service agreement will be procured via the Port's competitive selection process. The maximum duration of the agreement will be five years (2015 through 2019) and the anticipated value of the agreement is not to exceed \$1,700,000.**

Request document(s) provided by Tammy Woodard, Assistant Human Resources and Development Director – Total Rewards:

- Commission agenda [memorandum](#) dated February 18, 2014.
- [Resolution No. 3636](#) regarding self-funded health insurance.

Presenter(s): Ms. Woodard.

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

- The contract would include ongoing consulting for overall benefits and self-insured medical and dental plans, brokering services for fully insured plans, cost estimating and request-for-proposal preparation for contracts during the agreement term, and ad-hoc services for unanticipated needs.
- Use of consultants is preferable to hiring staff to perform these services because it provides for access to actuarial analysis and to a broader base of skills and knowledge. It also provides for brokering services to negotiate insured products to best advantage.

**Motion for approval of item 6c – Albro**

**Second – Creighton**

**Motion carried by the following vote:**

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

## **7. STAFF BRIEFINGS**

### **7a. 2013 Quarter 4 International Arrivals Facility Briefing.**

Presentation document(s) provided by Elizabeth Leavitt, Director, Aviation Planning & Environmental Programs; Wayne Grotheer, Director, Aviation Project Management Group; and Michael Ehl, Director, Airport Operations:

- Commission agenda [memorandum](#) dated February 19, 2014.
- Presentation [slides](#).

Presenter(s): Mr. Grotheer and Nick Harrison, Senior Manager, Airport Operations.

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

- Additional international service will tax the capacity of the existing Federal Inspection Services in the summer of 2014 to an unprecedented degree.
- Interim improvements are needed prior to completion of a completely new International Arrivals Facility in order to support safety and customer service needs to keep passengers moving through the terminal, including avoiding passengers' missing connecting flights. Misconnections to domestic flights represent additional airline expense, as do delayed departures.
- Some interim improvements at the South Satellite will provide for the use of additional gates for arriving international aircraft.
- Automated passport control, installation of an additional global entry kiosk, additional stanchions, an improved public address system, additional seating, additional elevators, an expanded Transportation Security Administration checkpoint, and replacement of passenger loading bridges are measures that have already or will soon provide improvements to passenger flow.
- Global entry now accommodates about five percent of international passengers. Automated passport kiosks accommodate over 50 percent of international passengers.

- Use of hardstands and bussing of passengers to the Federal Inspection Services facility will be implemented in 2014. A ramp will be necessary to provide universal access for passengers for whom it is burdensome or impossible to use stairs to connect to the terminal facility from the ground.
- Two gates will be converted to connect with the Federal Inspection Services facilities at the South Satellite. This will provide added international flight capacity of one wide-body and one narrow-body aircraft, bringing the number of gates available for international arrivals to 12 wide-body and 1 narrow body. Narrow-body aircraft are used to bring passengers from Mexico and Iceland.
- International airlines have previously and consistently opposed using a slotting system for international flights to ease peak-hour congestion. The timing of the Airport's peak arrival period is partly due to timing for connecting flights at arrival and destination points as well as the timing of an international flight's origination.
- The Airport's published minimum connection time is 90 minutes.
- A single stand-alone facility adjacent to Concourse A with a connecting tunnel or bridge to the South Satellite is proposed for the new International Arrivals Facility. A single facility is less expensive operationally because it requires less staffing by Customs and Border Patrol and would allow consolidation of other federal agency offices.
- The very preliminary cost estimate for the project is \$316 million, based on a shell facility and selection of a tunnel connector. The cost estimate is expected to increase and will be independently validated in the spring of 2014. This will determine the project cost target. A guaranteed maximum price will be established at the time the Commission authorizes design and construction.
- Staff recommends using a single design-build contract to build both the arrivals facility and the connector. Staff has received design-build training and the Port has been certified by the state to use a design-build project delivery method.
- The consultant's recommendation for the kind of connector is expected by the end of March 2014.
- Benefits of using a design-build project delivery methodology include the following:
  - ▶ Shortening of project schedule because basic construction can commence while design is still underway
  - ▶ Single point of accountability
  - ▶ Encourages design-builder innovation
  - ▶ Properly allocates risk
  - ▶ Project would be designed and built to a budget
  - ▶ Cost transparency
- Accountability risks were described in comparing progressive design-build methodology to both design-bid-build and lump-sum design-build methods.
- Progressive design-build methodology has been used at other West Coast airports, including San Francisco, San Diego, and Los Angeles.
- There is an initial target to reduce minimum connection time for international passengers from 90 to 75 minutes.

*Commissioner Bryant was absent after 3:03 p.m.*

**7b. 2013 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 February 7, 2014.
- Presentation [slides](#).
- 2013 Financial and Performance [Report](#).

Presenter(s): Mr. Thomas; Mr. Tong; Borgan Anderson, Director, Aviation Finance & Budget; Boni Buringrud, Director, Seaport Finance & Budget; Joe McWilliams, Director, Real Estate Division; Ralph Graves, Director, Capital Development Division; and Elizabeth Morrison, Director, Corporate Finance.

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

- The 2013 budget was revised after adoption in order to account for renegotiation of leases in both the Aviation and Seaport divisions. Revenue forecasts were reduced 15 percent. Approximately \$5 million in expense savings was proactively identified as part of this process.

**Portwide**

- Operating nonaeronautical revenue for 2013 was about \$291 million. This was about \$1.8 million above revised budget and more than \$5 million above 2012 actual revenue.
- Including aeronautical revenue, total revenue for 2013 was about \$544 million. This was about \$9 million above revised budget and about \$23 million above 2012 actual total revenue.
- Overall expenses in 2013 were about \$307 million. This was about \$17 million below revised budget.
- Net operating income before depreciation was about \$237 million. This was about \$26 million above revised budget and about \$14 million above the 2012 actual.
- Net operating income after depreciation was about \$66 million. This was about \$26 million above revised budget and about \$10 million above 2012 actual net operating income.
- Comprehensive revenue for 2013 was about \$732 million. Comprehensive expense, including depreciation, was about \$622 million. This resulted in a comprehensive increase of net assets of about \$110 million. Increase in net assets correlates to corporate profit.
- Negative interest income of \$1.1 million was due to unrealized loss on the market value of investments related to fluctuations in bond prices and interest rates.
- A \$30.8 million adjustment to net position represents adjustments for new accounting rules that require the costs of bond issuance to be accounted as expense during the year in which they are incurred rather than being amortized over the life of the bond. The previously unamortized portion of these costs for past bond issuances were required to be accounted as expense in 2013. Other accounting rule changes account for a portion of the adjustment as well.

- The nearly \$14 million saved in revenue bond interest expense was largely due to bond refundings for savings at attractive interest rates during 2013.
- Capital spending for each division was below budget in 2013. Capital spending in 2013 was about \$130 million.

### **Aviation**

- Passenger enplanements in 2013 exceeded 2012 by 4.7 percent.
- Operating expenses were below budget by \$11.9 million.
- Non-airline revenues in 2013 exceeded 2012 by 5.1 percent and exceeded 2013 forecast by 2.7 percent.
- Airline costs were reduced significantly due to the new signatory lease and operating agreement ("SLOA-3"). Cost per enplanement was reduced to \$11.90 from \$13.23 in 2012, and revenue sharing of \$9.7 million was introduced. The revised 2013 budget forecast \$13.65.
- Cargo activity increased 3.2 percent over 2012, including increases in domestic and international freight and mail volume.
- Airline realignment expenditures were about \$5.6 million below budget in 2013 due to project savings, capitalization of costs, and delays in expenditure. As much as \$600,000 is expected to be expended in 2014, but is not reflected in the 2014 budget.
- Total operating expenses in 2013 were below budget by about \$11.8 million, a five-percent variance.
- Total rate-base revenues of \$222 million account for \$17.9 million in airline revenue reduced as negotiated in the new airline lease (SLOA). The security fund from the previous airline agreement was no longer required to be held aside and contributed corresponding revenue of \$17.9 million, which was returned to the airlines as part of the new lease agreement. Amortization of the \$17.9 million airline revenue reduction over the five-year life of the lease results in accounting back as operating revenue 80 percent, or about \$14.3 million, in 2013. This amount is subtracted from calculation of net cash flow.
- Revenue sharing of 50 percent of cash flow above 1.25 times debt service coverage reduced 2013 revenue by about \$9.7 million.
- Non-aeronautical revenue from public parking was higher in 2013 by 2.5 percent over forecast and 4.9 percent over 2012 actual non-aeronautical revenue.
- Based on terms of the new SLOA agreement, shared operations and maintenance costs for 2013 were about \$20 million, about \$4.1 million below revised budget but an increase compared to 2012 actual operations and maintenance costs of about \$1.7 million, a 9.2-percent increase.
- Capital spending was 62 percent of forecast, due to timing of invoices or extenuating circumstances in the timing of projects.

### **Seaport**

- Net operating income exceeded 2013 budget by about \$500,000, after factoring a shortfall in operating revenue of about \$1 million and expense savings of about \$1.7 million.
- Cargo in TEUs (twenty-foot-equivalent units) was down 16 percent in 2013.



- Consolidated West Coast ports experienced an overall growth of about 1.9 percent. Cargo at Los Angeles/Long Beach grew 3.4 percent; Seattle/Tacoma dropped by 3.1 percent; and the Canadian ports of Prince Rupert and Metro Vancouver increased 2.5 percent.
- United Arab Shipping Company began making calls in June 2013 at Terminal 30.
- Grain shipments appear to be recovering following conclusion of the Midwest drought in 2013.
- Cruise business reported 871,000 passengers and ships sailing at 106 percent occupancy. Budgeted occupancy for 2013 was 104 percent.
- The Port of Seattle commands 52 percent of the Alaska cruise market. Metro Vancouver has 48 percent of that market.
- A new foreign trade zone was activated in 2013, bringing the total to five.
- Truck radio frequency identification was successfully implemented.
- Environmental clean-up is underway at Terminals 117 and 91, and an update to the Northwest Ports Clean Air Strategy was adopted in 2013. Clean-up costs of \$5.4 million were recovered from grants and insurance.
- Crane rent was below 2013 budget due to a reduction in lifts at Terminal 18.
- Capital spending was 51 percent of forecast, largely due to rescheduling of projects.

#### **Real Estate**

- Net operating income for 2013 exceeded budget by about \$1.8 million.
- Revenue was below budget but expenses were also below budget.
- Commercial occupancy ended 2013 at 91 percent. The comparable average occupancy for Seattle was about 88 percent.
- Occupancy at Shilshole Bay Marina averaged 97 percent.
- Conference Center activity was below budget but was comparable to 2009 results.
- There were zero days lost to accidents in 2013 in Marine Maintenance.
- There were unbudgeted legal expenses for maintenance of the Eastside Rail Corridor that raised its expenses over budget in 2013.
- Capital spending in Real Estate was about 50 percent of budget. There were delays in projects at Fishermen's Terminal and elsewhere, and Pier 66 steam replacement was not anticipated in the Real Estate budget.

#### **Capital Development**

- There is an increase in design work in preparation for several upcoming large capital projects.
- Cost growth for mandatory and discretionary project changes were presented for projects closed during the fourth quarter of 2013.
- Time taken to execute service agreements improved in 2013 from 202 days to 169 days.
- Delayed hiring helped keep expenses below budget.
- Port Construction Services' expenses were above budget due to unanticipated projects. Expenses by the Central Procurement Office were over budget due to higher than expected legal expenses.

**Corporate**

- There were 42 small business outreaches in 2013.
- The Port responded to 310 requests for disclosure of public records in 2013.
- Spending by the Corporate Division in 2013 was about \$75.8 million, \$2.2 million below revised budget. Savings came from salaries & benefits, outside services, and travel, among other categories.
- Corporate costs amounted to 13.9 percent compared to total Port revenue and 24.7 percent compared to total Port expenses.

**Tax Levy**

- Actual tax levy funding sources for 2013 were comparable to the forecasts provided in October 2013, including a beginning balance of \$56.3 million and an annual levy of \$73 million.
- Use of tax levy funding for environmental remediation was \$10.9 million, about \$2 million less than forecast due to spending delays on environmental projects.
- Use of tax levy funding for noise remediation in the Highline School District was \$700,000, significantly less than the forecasted \$7.2 million due to the district's inability to fund its portion of the project in 2013.
- Real Estate spending of tax levy funding was also significantly below forecast in 2013.
- Staff recommends \$2 million of Real Estate Division operating expense savings be added to the Port's contribution toward the State's replacement of the Alaskan Way Viaduct. Staff also recommends combining \$5 million from Snohomish County for purchase of a portion of the Eastside Rail Corridor toward the Viaduct replacement project by depositing it in the Transportation Improvement Fund. Increasing the Port's cash contribution to the project reduces the amount of bonds needed to fund its portion of the SR-99 tunnel project.
- The ending balance for the tax levy fund for 2014 is forecast to be a little less than \$13 million.

Commissioner Gregoire requested further information on the amount of time spent fulfilling requests for disclosure of public records.

**7c. 2013 Annual Treasury and Investment Portfolio Report.**

Presentation document(s) provided by Craig J. Kerr, Treasury Manager:

- Commission agenda [memorandum](#) dated February 5, 2014.
- Presentation [slides](#).
- Current Port Investment Policy, [Resolution No. 3663](#).

Presenter(s): Mr. Kerr and Diane Campbell, Financial Analyst.

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

- Cash management and management of banking activities are some of the functions of the Port's Treasury, which coordinates its processes with Accounting & Financial Management and Information & Communications Technology.
- Implementation of emerging Securities Exchange Commission regulations affecting municipalities is also a Treasury function.
- A new banking contract is expected to be executed soon.
- The Port's Commission-approved investment strategy was described. Use of a 2.0 Target Duration Plus or Minus 50 Basis Points balances the Port's investment portfolio such that Port investment outperforms the market when rates are falling and underperforms when rates are rising.
- The Port's investment performance benchmark is the Bank of America Merrill Lynch Treasury/Agency Three Year Index.
- Investment policy objectives are safety, liquidity, and yield in that order of priority.
- The investment policy sets portfolio standards, establishes reporting standards, and allows for independent review of the investment program by the State Auditor, external auditors, and internal auditors. The policy is periodically reviewed and amended as appropriate to conform to best practices.
- The Port's investment portfolio is composed of "high grade" mortgage backed securities, repurchase agreements, treasury notes, and federal agency securities.
- Interest rates remain low, but short- and medium-term rates are expected to rise slowly in 2014.
- In 2013, the Port outperformed its investment benchmark of 0.35 percent with a yield of 0.69 percent.
- Portfolio earnings in 2013 were about \$6.5 million and demonstrate a downward trend since 2009.
- Over the 12 years during which the Port has performed its own treasury function, its investments have outperformed the benchmark by 0.73 percent.
- Value of the portfolio fluctuates over time and was \$953 million in 2013. Capital spending reduces the portfolio, bond issuance to fund projects increases it.
- The designated uses of the Port's investment funds were outlined in general.

**7d. Legislative Update for February 25, 2014.**

Presenter(s): Patricia Akiyama, Director, Public Affairs.

Issues and measures being tracked by the Port governmental relations team include the following:

- Maritime Goods Movement Act related to Harbor Maintenance Tax reform in the U.S. House of Representatives.
- Pacific Northwest transportation infrastructure advocacy in Congress.
- Port and transportation advocacy in the Washington Legislature, including transportation funding.
- Completion of SR-509.

- State derelict vessel legislation, including monitoring of potential regulations that would require marinas to ensure proof of insurance.
- State tourism promotion.
- A King County ballot measure for April 22 to raise funding for Metro Transit and local transportation projects via license fees and sales taxes.
- Tolling recommendations for SR-99.
- Local policy developments on questions relating to minimum wage.
- Industrial lands protection and zoning advocacy in the Duwamish Manufacturing Industrial Center.
- Policy developments surrounding regulation of transportation alternatives such as Lift and Uber-X rideshare and transportation network ventures. The Port supports insurance and training for drivers.

**8. NEW BUSINESS**

None.

**9. POLICY ROUNDTABLE**

None.

**10. ADJOURNMENT**

There being no further business, the regular meeting was adjourned at 4:22 p.m.

Tom Albro  
Secretary

Minutes approved: September 11, 2014.