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**APPROVED MINUTES
COMMISSION SPECIAL MEETING MAY 13, 2014**

The Port of Seattle Commission met in a special meeting Tuesday, May 13, 2014, at Port of Seattle Headquarters, Commission Chambers, 2711 Alaskan Way, Seattle, Washington. Commissioners Bowman, Gregoire, and Creighton were present. Commissioners Albro and Bryant were excused in order to attend to other Port business.

1. CALL TO ORDER

The special meeting was called to order at 2:05 p.m. by Courtney Gregoire, Commission Co-President.

2. EXECUTIVE SESSION pursuant to RCW 42.30.110

None.

PLEDGE OF ALLEGIANCE

ANNOUNCEMENT

Mark Reis, Managing Director, Aviation Division reported that a passenger loading bridge owned and maintained by one of the Airport tenants malfunctioned earlier in the day. The mechanism that adjusts the height of the loading bridge at the aircraft end failed during deboarding of an aircraft. There were no injuries and the loading bridge has been taken out of service.

[Clerk's Note: Passenger loading bridges at Seattle-Tacoma International Airport are owned and maintained either by the Port of Seattle or Airport tenants. In general, it is the strategy for the Airport to acquire loading bridges as opportunities arise and proceed to maintain them itself. This topic is elaborated on in agenda item 6a below.]

3. SPECIAL ORDERS OF BUSINESS

3a. Presentation on Mayor Ed Murray's Maritime and Manufacturing Summit on May 19, 2014.

Presenter(s): Tina Vlasaty, Deputy Director, Seattle Office of Economic Development.

Ms. Vlasaty described the Mayor's Maritime and Manufacturing Summit scheduled on May 19 at Harley Marine Services. Creation of quality jobs and development of a sustainable workforce in the maritime and manufacturing sectors is a major theme of the summit. Ms. Vlasaty explained

that due to limited space, attendance at the event will be by invitation only. However, a similar public event is planned for the fall of 2014.

The summit agenda includes a panel on four key topics, moderated by Commissioner Bowman. These include talent development, telling the story of the maritime and manufacturing sectors, infrastructure, and the regulatory environment. From the summit an action agenda will be formulated to support the maritime and manufacturing sectors.

4. 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.]

- 4a. Approval of the [claims and obligations](#) for the period of April 1- April 30 in the amount of \$48,340,378.83 including accounts payable check nos. 823591-824349 in the amount of \$40,473,337.35 and payroll check nos. P-176527-176675 in the amount of \$7,867,041.48 for a fund total of \$48,340,378.83.
- 4b. Authorization for the Chief Executive Officer to amend the previously authorized lease agreement for the United Services Organization Northwest to increase the leased area from 7,000 to 7,592 square feet as shown on Exhibit A and provide a reimbursement not to exceed \$12,000 for increased costs associated with creating an exit hallway as part of the tenant improvement project.

Request document(s) provided by James Schone, Director, Aviation Business Development; James Jennings, Manager, Aviation Properties; and Jude Barrett, Lease Administration Supervisor:

- Commission agenda [memorandum](#) dated April 15, 2014.
- First Amendment Terminal Lease [Agreement](#).
- [Exhibit A](#) to lease amendment.

Motion for approval of consent items 4a and 4b – Creighton

Second – Bowman

Motion carried by the following vote:

In Favor: Bowman, Creighton, Gregoire (3)

Absent for the vote: Albro, Bryant

5. PUBLIC TESTIMONY

Public comment was received from the following individual(s):

- Dan McKisson, with the International Longshore Workers Union. Mr. McKisson commented on agenda item 7a, regarding dock upgrades at Terminal 5. He spoke in favor of the project and stressed the importance of preserving cargo capacity and maintaining the terminal's footprint.
- Brad Herman, 10810 36th Avenue Southwest, Seattle. Mr. Herman spoke in favor of upgrades to Terminal 5 and preserving jobs.
- Shawn Brennan, with the International Longshore Workers Union. Mr. Brennan asked what the status was of other terminal upgrades besides Terminal 5.

6. DIVISION, CORPORATE, AND COMMISSION ACTION ITEMS

- 6a. First Reading of Resolution No. 3691: A resolution of the Port Commission of the Port of Seattle declaring certain personal property surplus (Port of Seattle Passenger Loading Bridges N3, N7, N8, N9, N10, N11, and N14 and related spare parts) for Port of Seattle purposes; authorizing its sale to Alaska Airlines; and authorizing the Chief Executive Officer to execute all documents related to such sale.**

Request document(s) provided by James Jennings, Manager, Aviation Properties, and Jolene Culler, Senior Property Manager, Aviation Properties:

- Commission agenda [memorandum](#) dated April 22, 2014.
- [Resolution No. 3691](#).
- Port/Alaska Loading Bridge Purchase and Sale Strategy [diagram](#).

Presenter(s): Mr. Jennings and Stuart Mathews, General Manager, Aviation Maintenance.

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

- Over the last decade, the Seattle-Tacoma International Airport has opportunistically acquired passenger loading bridges (PLBs) from airlines as airlines realigned and relocated. The Port of Seattle currently owns 54 of the 74 PLBs at the Airport.
- This has resulted in a patchwork of ownership across the South Satellite, the North Satellite, and other concourses. This has led to confusion regarding bridge ownership and repair responsibility among Airport staff and airline agents.
- Resolution No. 3691 is part of the Port's PLB strategy that fosters more logical and sustainable ownership. The strategy facilitates Airport flexibility while allowing continued airline autonomy.
- The strategy includes Port ownership of all PLBs on South Satellite Concourses A, B, C, and D. Alaska Airlines will retain ownership of all PLBs on the North Satellite.
- The Port will surplus seven PLBs as a result of this action and sell them to Alaska Airlines. Three gates are proposed for Port purchase after the PLB transaction.
- Alaska Airlines is the only airline that prefers continued ownership of PLBs. All other airlines at Sea-Tac have requested that the Port purchase and own their PLBs. If the resolution is approved after the second reading on May 27, staff anticipate executing documents for the sale of the PLBs to Alaska Airlines. The Port anticipates executing

- purchase documents for the purchase and sale of three bridges from Alaska Airlines on Concourses C and D.
- As part of the 2013 Airline Realignment project, Alaska Airlines sold five PLBs to the Port. This transaction, if approved, will increase their PLB ownership to 14, close to their pre-realignment ownership of 15.

Motion for approval of item 6a – Creighton

Second – Bowman

Motion carried by the following vote:

In Favor: Bowman, Creighton, Gregoire (3)

Absent for the vote: Albro, Bryant

6b. Authorization for the Chief Executive Officer to: (1) increase the budget for the International Window Wall Ticket Counters project (C800490) by \$826,000 for increased design and construction costs, bringing its total cost to \$5,636,000; and (2) issue a change order for this same project's construction contract, MC-0317526, to extend the contract duration by up to 75 days to complete changed work on the project. The total amount of this request is \$826,000 of an estimated total project cost of \$5,636,000.

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

- Commission agenda [memorandum](#) dated May 5, 2014.
- Presentation [slides](#).

Presenter(s): Mr. Grotheer and Sean Anderson, Capital Project Manager, Aviation Project Management Group.

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

- The International Window Wall Ticket Counters project has already expanded the Seattle-Tacoma International Airport's utilization of the ticket lobby area used for the majority of international flights.
- The project has experienced cost growth in both construction and design, including construction issues response and design of a self-service baggage drop system.
- An additional contract time of up to 75 days is needed to reconcile the construction schedule impacts that resulted from the design changes. This will be sufficient to close out the project.
- The project's most significant problems are related to management and execution, primarily in areas of coordination between the Capital Development and Aviation Divisions, design quality, and financial management.
- Throughout the project, the team has started designs on unauthorized project elements. These elements are related to future unanticipated work, and the designs are not wasted effort.
- Inadequate investigation by the project team during the design phase is linked to designer performance issues that are currently under evaluation.

- There was apparently inadequate use of controls, reporting procedures, and financial management systems and tools during this project. The Capital Development Division is currently developing new procedures with the Aviation Division to better coordinate and control the project scope.
- Changes are being made to the Enterprise/Project Delivery System to improve project cost estimates. This facilitates review and transparency of project completion costs and the project budget.
- The problems related to this project are similar to those experienced by the Cell Phone Lot project.

Motion for approval of item 6b – Creighton

Second – Bowman

Motion carried by the following vote:

In Favor: Bowman, Creighton, Gregoire (3)

Absent for the vote: Albro, Bryant

6c. Authorization to expand the scope of the authorization for the tenant reimbursement to Alaska Airlines associated with the airline realignment tenant improvement program to include eligible project scope and costs. No additional budget is required for this project.

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

- Commission agenda [memorandum](#) dated May 5, 2014.

Presenter(s): Mr. Jennings and Sean Anderson, Capital Project Manager, Aviation Project Management Group.

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

- In September 2012, as part of the Airline Realignment, the Port Commission authorized a tenant reimbursement of \$834,000 for Alaska Airlines to vacate offices on Concourse D.
- As part of the associated memorandum of agreement (MOA), the Seattle-Tacoma International Airport also wished to relocate United Airlines from the North Satellite facility to Concourse A.
- This phased relocation was facilitated by Alaska Airlines moving its regional aircraft (Horizon Air) from Concourse C to the North Satellite.
- To operate Horizon Air aircraft off the North Satellite, a new aircraft ground power system was needed.
- Alaska Airlines completed the work for a cost of \$156,395.57.
- While such work is eligible for reimbursement under the MOA, prior to final reimbursement, staff determined that the Commission's 2012 authorization did not include this work at the North Satellite.

- The MOA scope would be increased to allow the reimbursement to occur. The cost has been budgeted for in the MOA and no additional budget is required for the reimbursement.
- Under the MOA terms, Alaska Airlines will partially repay the reimbursement through rates and charges.

Motion for approval of item 6c – Creighton

Second – Bowman

Motion carried by the following vote:

In Favor: Bowman, Creighton, Gregoire (3)

Absent for the vote: Albro, Bryant

7. STAFF BRIEFINGS

7a. Terminal 5 Dock Upgrade Briefing

Presentation document(s) provided by Michael Burke, Director, Seaport Lease and Asset Management; and Anne Porter, Manager, Capital Project Division:

- Commission agenda [memorandum](#) dated May 8, 2014.
- Presentation [slides](#).

Presenter(s): Mr. Burke, Ms. Porter, and Linda Styrk, Managing Director, Seaport.

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

- In 1964, the Port of Seattle commenced container activity at Terminal 5, which was modernized beginning in 1997.
- Vessels calling at the Port have grown in size from 4,800 TEUs (twenty-foot equivalent units) in 1997 to 10,000 TEUs, with ships with capacity of 18,000 or more TEUs currently operating globally. The Port must accommodate these larger vessels to remain competitive.
- There is a lower cost to operate larger capacity vessels providing an economy of scale. With the increased load capacities, there are positive environmental implications and lower fuel costs per cargo unit.
- Terminal 5 is considered the best investment for accommodating larger container ships, due to the quality of its dock rail and configuration.
- Terminal 5 requires the installation of a target number of six Super Post-Panamax cranes, with an outreach of 210 feet, to accommodate larger modern vessels. Concurrent operation of cranes is considered essential.
- Terminal 5's dock length will not be extended. Upgrades will be made to the existing terminal system.
- The dock structure would be strengthened to accommodate and operate larger cranes and larger vessels.

- The current power needs of 5 kV will triple to 15 kV to accommodate the new cranes and the land power needs for larger docking vessels.
- Pile cap and deck panel repairs will continue as part of the Seaport's ongoing Asset Stewardship Program.
- The current berth depth of -50 feet is insufficient for the deeper drafts of large modern vessels. A depth of up to -55 feet is proposed.
- The Seaport is undertaking a reconnaissance study with the Army Corps of Engineers on the depth of the Seattle Harbor's navigation channel, to be completed by the Army's fiscal year end in September. If the project gains federal approval, the study's results will be analyzed and the berth depth will be adjusted to match the navigation channel.
- The Seaport is currently undertaking a separate study analyzing current street traffic around Terminal 5 and forecasting future volumes in and out of the terminal gate.
- Staff will return to the Commission in June with analysis results and specific numbers and a request for funding authorization.
- A timeline for upgrades and a synopsis of the Port's West Coast competitors' investments and terminal actions will be provided to the Commission.

7b. First 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 April 24, 2014.
- Presentation [slides](#).
- Port of Seattle 2014 Financial and Performance [Report](#).

Presenter(s): Mr. Thomas, Mr. Tong, Boni Buringrud, Director, Seaport Finance & Budget; Borgan Anderson, Director, Aviation Finance & Budget; and Ralph Graves, Managing Director, Capital Development Division.

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

Portwide

- The Port of Seattle's overall operating revenues for the first quarter of 2014 were \$120.7 million, \$1.4 million below budget but \$9 million higher than the same period in 2013.
- Excluding aeronautical revenues, operating revenues were \$278,000 above budget and \$4.2 million over the same period last year, mainly due to higher revenues from public parking, rental cars, concessions, and grain. This was partially offset by lower revenues from container business and the Conference & Event Centers.
- Net operating income before depreciation was \$53.3 million, \$5.5 million or 11.5 percent over budget. Operating income after depreciation was \$11.1 million, \$5.4 million, or 93.0 percent, higher than budget.
- The 2014 net operating income, excluding aeronautical revenues, is forecast to be \$1.7 million over budget. NOI before depreciation is forecasted to be \$2.6 million over budget.
- Total operating expenses for the entire year are forecast to be \$1.9 million below budget.

- Total operating expenses were \$67.4 million, \$7 million or 9.3 percent below budget, due largely to hiring delays, some vacant positions, and timing of spending. Expenses were \$2.1 million higher than Q1 2013, mainly due to higher payroll and utilities costs.
- Port-wide capital spending is forecast to be \$263 million by the end of the year, \$35 million below budget.

Aviation

- Operating Expenses were \$2.9 million below budget in the first quarter (Q1).
- Non-airline revenues were 1.5 percent over budget and 12.2 percent above Q1 2013.
- Passenger airline costs (CPE) are trending below budget due to projected lower debt service costs.
- The Seattle-Tacoma International Airport spent \$26 million of its Capital Budget in Q1, the largest project being the remain-overnight parking at Cargo 5. Spending forecast is \$208 million, 88 percent of 2014 actual budget.
- International cargo volume increased by 36 percent.
- Airline Realignment has incurred \$225,000 of expenses; future expenses are forecast up to \$750,000.
- Aeronautical and non-airline businesses are all experiencing increased activity and revenue.
- The enplanement forecast for Q1 has not been adjusted, but will be examined as trends develop. If enplanements increase, CPE will decrease further.
- The Airport is benefitting from a strengthened economy and robust competition between airlines, particularly Delta and Alaska Airlines.
- The Airport forecasts better performance in all key measures compared to 2013.

Seaport

- Q1 Net Operating Income (NOI) was \$2.8 million, 24 percent favorable to the budget.
- Full Year NOI is forecast to exceed budget by \$1.4 million due to lower expenses related to Maintenance Dredging projects for Terminals 5 and 91.
- Due to the November 2013 withdrawal of PS1 from Terminal 5, TEU volume was 335,000, down 13.8 percent from Q1 2013.
- The PS1 withdrawal was originally an adjustment of its winter deployment schedule; but following the formation of the G6 alliance and APL being part of that alliance, service reactivation is unlikely.
- West Coast ports had an overall TEU increase of 1 percent. The Ports of Seattle and Tacoma are down by 2.5 percent collectively.
- Grain volume was 1 million metric tons, up 288 percent from 2013 and 92 percent favorable to the 2014 budget.
- 2014 volume container forecast is 1.44 million TEUs, below the budget of 1.6 million.
- Q1 Net Operating Expenses were \$2.8 million, 28 percent favorable to the budget.
- Terminal 5 has an expense variance of \$1.2 million. That savings is reflected in the full year forecast.
- Preparation for ScRAPs 2 truck scrapping and replacement project are underway for Q2 launch.
- Terminal 117 and Terminal 91 clean-up projects are underway.

- The Seaport is forecast to spend \$22.5 million in 2014, or 81 percent of its 2014 approved Capital Budget. Spending is less due to project reprioritization at Terminals 46 and 18.

Real Estate

- Q1 NOI was \$793,000, favorable to the budget.
- Q1 total revenue was below budget due to a drop in activity at the Bell Harbor Conference and Event Center.
- NOI is forecast to exceed budget by \$250,000 due to favorable revenue as well as favorable expense variance.
- Commercial property is at 90 percent occupancy, below the 92 percent target, but above Q1 2014 Seattle market average of 88 percent.
- There has been a drop in the World Trade Center Seattle occupancy, due to the downsizing of a significant tenant. Potential new tenants are being considered.
- Starbucks Coffee will not renew its lease at the World Trade Center West entrance. There are four potential candidates to replace it.
- Fishermen's Terminal and the Maritime Industrial Center are at 85 percent occupancy, above target of 82 percent. Recreational marinas are on target at 95 percent occupancy.
- Conference and Event Center revenue was 17 percent below budget due to significant new competitive challenges and the perceived impact of waterfront transportation projects.
- Activity at the Conference and Event Center increased in April, with revenues at \$800,000 ahead of the same point in 2013.
- Customers using Port of Seattle facilities are generally younger, more high-tech and less inclined to long-term planning than previous customers. The Marketing Team has shifted focus to more short-term requirements.
- ICT and the Governance Board are working on persistent Wi-Fi connectivity problems in Port facilities. The Real Estate Division is also accumulating funds for repairs and upgrades, with about \$500,000 saved so far.
- Des Moines City Council approved a revised second development agreement in February for the Des Moines Creek Business Park project.
- The Tsubota Steel site request for offers has been issued. Submitted offers are under review.
- The Commission-authorized sale of a 12-mile section of the Eastside Rail Corridor to Snohomish County is scheduled to close in 2014.
- The Port is in discussion to sell the remaining three-mile section to the City of Woodinville.
- The Real Estate Division has spent \$1.3 million to date.
- The Real Estate Division's 2014 spending forecast is \$17.3 million, 97 percent of its approved capital budget. This 3 percent variance is due to the Pier 69 North Apron Corrosion Control project close-out costs being lower than budgeted.

Capital Development

- The Capital Development Division (CDD) worked on over 70 active projects during Q1 2014.
- Important projects included NorthSTAR, gaining agency approval for use of General Contractor/Construction Manager and Design-Build project delivery methods, and hosting a Northwest Construction Consumer Council construction management student competition.
- CDD's total revenues stand at \$9.5 million, below the \$10.5 million budget.

- Construction “soft costs” (design, administration, and overhead) currently stand at 26 percent of total construction costs, above the 25 percent target tolerance.
- Procurements are advancing faster than in 2013, in all sectors except service agreements, with an average of 189 days compared to 169 days.
- Q1 provides only a small sample of procurements, including holiday procurements. A third-party consultant is currently halfway through a more in-depth procurement review.
- CDD’s Net Operating Expenses stand at \$3.2 million, favorable to its budget of \$3.4 million.
- CDD’s Other Expenses stand at \$428,000, due to litigation costs relating to a personnel matter, a federal partner disputing project cost share, and the CDD management of overhead costs.
- CDD underspent against the yearly overhead flat rate. The extra funds will sit in Other Expenses until evened out.
- All sectors are favorable to their budgets except Seaport Project Management and Port Construction Services. Seaport Project Management stands 11.9 percent unfavorable to its budget; Port Construction Services stands 9.3 percent unfavorable.
- Due to the unanticipated nature of their projects, Port Construction Services budgets an annual amount. Demand for their services in 2014 has already exceeded that amount.

Corporate

- Q1 key business events included an expansion of the live music program at the Airport, the 2014 internal internship program start, and collaboration with the Port of Tacoma for the Economic Impact Study procurement/contract.
- Airport Jobs helped 197 people gain employment and provided 23 apprenticeship opportunity project placements.
- The Corporate Division conducted nine small business and workforce development outreach events and registered 50 new small businesses in the Procurement Roster Management System (PRMS).
- Staff responded to 83 public records disclosure requests. There were orientations for 29 new employees were provided with orientation, and 39 received development classes.
- The Corporate Division’s Net Operating Expenses were \$17.6 million, \$2 million below budget. Savings are forecast to be \$500,100 below budget by the end of the year.

8. NEW BUSINESS

None.

9. ADJOURNMENT

There being no further business, the special meeting was adjourned at 3:50 p.m.

Tom Albro
Secretary

Minutes approved: February 10, 2015.