

Commissioners

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An audio of the meeting proceedings and meeting materials are available on the Port of Seattle web site -

<http://www.portseattle.org/about/organization/commission/commission.shtml>

(The approximate point in the audio recording for the specific item is identified by minutes and seconds; example: 01:30.)

PROPOSED MINUTES
COMMISSION SPECIAL MEETING OCTOBER 8, 2009

The Port of Seattle Commission met in a special meeting at 9:00 a.m., Thursday, October 8, 2009 in the Commission Chambers at Pier 69, 2711 Alaskan Way, Seattle, WA. Commissioners Bryant, Creighton, Davis, Hara and Tarleton were present.

1. CALL TO ORDER

The regular meeting was called to order at 9:10 a.m. by Bill Bryant, Chair and President.

2. EXECUTIVE SESSION pursuant to RCW 42.30.110

None.

PLEDGE OF ALLEGIANCE

3. APPROVAL OF MINUTES

None.

4. SPECIAL ORDER OF BUSINESS

None.

5. UNANIMOUS CONSENT CALENDAR

None.

6. DIVISION, CORPORATE AND COMMISSION ACTION ITEMS

None.

7. STAFF BRIEFINGS

None.

8. NEW BUSINESS

9. POLICY ROUNDTABLE

a. () Budget Workshop: Briefing on 2010 Corporate and Capital Development Division Budgets

Presentation documents: Commission agenda memorandum dated September 30, 2009 and computer slide presentations titled, "Port of Seattle 2010 Preliminary Budget: and Capital Development Division 2010 Preliminary Budget" from Dan Thomas, Chief Financial Officer; Ralph Graves, Managing Director, Capital Development Division; and Michael Tong, Corporate Budget Manager.

Presenters: Mr. Thomas, Mr. Tong and Dakota Chamberlain, Director, Seaport Project Management Group

Mr. Thomas noted that over the past few weeks, Commissioners had been provided briefings on the preliminary budgets for individual divisions of the Port, and that today's information would provide more of a summary of how the preliminary budget is looking from a total Port-wide basis. He stated that one of the issues the Port is facing is a significant increase to the Environmental Reserves, which runs through the income statement as an environmental reserve expense. He reminded the Commission that this is where reserves are set up for future liabilities for future cleanup actions, and noted that it is anticipated that there will be some large ones beginning in 2010, particularly in the Seaport and Real Estate divisions. He also stated that those costs are funded by the tax levy and not out of operating revenues, but under accounting rules, they are booked under operating expense against operating revenues.

Mr. Thomas stated that staff plans to return in early November with a fuller picture of what is happening with the 2009 budget and the impacts resulting from the Voluntary Separation Program (VSP).

Responding to a comment by Commissioner Tarleton, Mr. Thomas clarified that without counting environmental expenses, the preliminary 2010 budget has gone down substantially from the 2009 budget (4.4%).

Mr. Thomas also called to attention an additional booking of reserves, that being Other Post Employment Benefits (OPEB), which are non-pension related benefits (typically

health care) that are provided for retirees, noting that the booking of these costs began in 2007. He noted that the largest portion of those reserves relate to the fact that the Port's retirees are able to join the Port's medical plans and pay their own premiums. He stated that in the past, those premiums did not reflect the full cost of the benefits being achieved by the retirees. As a result, as part of overall cost-cutting measures, the decision was made to charge retirees the full cost of their health care benefits beginning in 2010. As a result of doing so, staff expects to achieve significant savings by reversing and writing off those reserves.

Mr. Thomas provided a comparison of operating revenues and expenses from 2009 budget through the 2010 budget, noting that the numbers provided included the environmental expenses for 2010. Commissioner Bryant stated that it would be helpful to have an additional column of numbers which reflected the environmental unfunded mandate costs.

Mr. Thomas then provided a summary of Port FTE's (full-time equivalent employees), noting that there has been a reduction across the board, both through the VSP program as well as the elimination of some positions.

Mr. Tong then addressed items within the 2010 Preliminary Budget for Corporate Professional and Technical Services, first providing a brief overview of how the preliminary budget target for 2010 was achieved. He reviewed budget cuts and noted that cuts were made across the board, and stated that since most of the corporate costs are payroll-related, significant cuts had been achieved due to FTE reductions.

Mr. Tong commented on additions which had been made to the 2010 budget, which included:

- Port Centennial Planning
- Workplace Responsibility Program
- 2 FTE's in Human Resources and Development (HR&D) for Human Capital Management (HCM)
- Payment Card Industry (PCI) Compliance Mandatory Audit
- Self-Funding Benefits Broker
- Deferred Compensation Third Party Administrator

Commissioner Hara asked about the approximate cost of the Port Centennial. Mr. Thomas responded that there is not a sure amount at this point, that there is a significant amount of work to be done, and there will be more funding in 2011.

Commissioner Tarleton stated that there is hope that much of the funding will be underwritten by sponsors, and that she would be reluctant to speculate about what the impact on the 2011 budget could be on the Port until there is a chance to review a draft budget from the team. She also commented that she believes the total will be in the \$500,000 to \$1,000,000 range, but would not be principally funded by us.

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Mr. Tong noted that one of the savings measures was the elimination of the Economic & Trade Development Department. Commissioner Tarleton clarified that although the department had been eliminated, the functions and responsibilities of that department would reside in other Divisions.

Commissioner Bryant asked to see breakouts, prior to the October 13 meeting, of line items for Risk Services; Human Resources and Development (HR&D); Information & Communications Technology (ICT); Office of Social Responsibility (OSR); and Regional Transportation.

Mr. Tong then reviewed a summary of the Corporate FTE count and also elements of risk for 2010, which included:

- Uncertainty of economic conditions
- SAO Performance Audit
- Renewal of insurance premiums
- Unexpected litigation or claims
- Unanticipated events or Transportation Security Administration (TSA) mandates

During the discussion of proposed Capital Projects, Commissioner Tarleton stated that it would be helpful to see a breakout between Airport and Seaport Divisions of the ICT projects. Peter Garlock, Chief Information Officer, responded to the issue, noting that the amount presented in this presentation (\$14,645,000) was only for Corporate Capital projects and that the total amount of the ICT budget was closer to \$25,000,000. Mr. Garlock also stated that perhaps it would be helpful for staff to provide a detailed breakout of the individual projects that are proposed, as well as who will benefit from each project. Commissioner Bryant asked staff to consider where cuts could be made if it was necessary to reduce the proposed amount by \$5,000,000.

Mr. Tong reviewed the remaining schedule for the 2010, noting that the preliminary budget document would be available to the Commission on October 20; First Reading of the budget would take place on November 10; Second Reading and Final Passage would take place on November 24; and the Final Budget would be filed with the county by December 1.

(_____) As introduction to Mr. Chamberlain's presentation on the Capital Development Division's 2010 Preliminary Budget, he reviewed the Division's Mission, which is "The Capital Development Division (CDD) delivers projects and provides technical and contracting services in support of the business plans and infrastructure needs of the Port of Seattle." He also reviewed CDD's priorities for 2010, which include:

- Continue the full implementation of the changes resulting from recent audits and new Port Policies, anticipating a return visit from the State Audit Office (SAO) in 2011.
- Begin operation of the new Enterprise-wide Project Delivery (EPDS) system.

- Prioritize accomplishment of critical Capital Improvement Program (CIP) projects.
- Measure department performance according to the CDD performance metrics.
- Complete the high priority Capital Development Division Initiatives.

Mr. Chamberlain noted that the CDD budget is driven by the workload defined by the Seaport, Aviation and Real Estate divisions. He stated that an increase has been seen in the amount of expense work being done, partly due to changes to accounting rules.

Mr. Chamberlain noted that positions held by consultants in the past are continuing to be converted to Port staff positions, thereby reducing the number of consultants and reducing some costs. It was also noted that vacancies within Central Procurement would be filled.

Mr. Chamberlain provided an organizational chart of the CDD, noting that the Division is made up of five separate departments and that budgeting is done at the department level. Mr. Chamberlain stated that CDD's expense target for 2010 was a 5% savings compared to what was approved for the 2009 budget.

Staffing FTE's by department were reviewed and he also provided a look at what the make-up of the Procurement Office staff prior to the SAO audit as well as how that staff has changed since that time and currently exists.

Nora Huey, Director, Central Procurement Office, noted that in the restructuring of the department, the main focus had been to bring staff into compliance and going forward the department will be looking at how to gain better efficiencies.

Mr. Chamberlain identified upcoming risks, which included:

- Financing difficulties disrupt capital programs.
- Operating income declines interrupt expense-funded programs.
- Personnel and process transitions disrupt project performance.
- Renewed audit scrutiny disrupts response and performance.
- Resource shortages constrain process improvements.

Opportunities were also identified, including:

- Depressed market generates low bids for construction.
- Slowed design and construction employment provides quality candidates for CDD vacancies.
- Sustainable asset management can inform project decisions.
- Building information management can aid project visualization and construction.

10. ADJOURNMENT

There being no further business, the meeting was adjourned at 10:40 a.m.

(A digital recording of the meeting is available on the Port's website)
