



ITEM NO. 6c-Report

DATE OF

MEETING March 5, 2009

Port of Seattle

QUARTERLY PERFORMANCE REPORT

AS OF DECEMBER 31, 2008

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(More detailed information can be made available upon request of the Divisions or LOBs)

I. PORTWIDE PERFORMANCE REPORT 12/31/08

INCOME STATEMENT

Report: Income Statement									
As of Date: 2008-12-31									
Dollars in thousands		2007 YTD Actual	2008 YTD Actual	2008 YTD Budget	2008 Var \$ Bud vs. Act	2008 Var % Bud vs. Act	2008 Annual Budget	% of Annual Bud	2008 Var % Act vs. 2007
Revenues:									
Seaport		80,210	94,781	87,982	6,800	7.7%	87,982	107.7%	18.2%
Real Estate		32,383	35,231	32,183	3,049	9.5%	32,183	109.5%	8.8%
Aviation		346,330	357,600	355,055	2,545	0.7%	355,055	100.7%	3.3%
Corporate		2,223	1,735	1,258	477	37.9%	1,258	137.9%	-22.0%
Total Revenues		461,146	489,347	476,477	12,870	2.7%	476,477	102.7%	6.1%
Operating & Maintenance:									
Seaport		19,867	24,262	25,522	1,260	4.9%	25,522	95.1%	22.1%
Real Estate		30,390	39,244	31,578	(7,666)	-24.3%	31,578	124.3%	29.1%
Aviation		121,067	142,318	134,061	(8,257)	-6.2%	134,061	106.2%	17.6%
Chief Procurement Office		37	1,406	20	(1,387)	-7032.8%	20	7132.9%	3701.5%
Corporate		70,257	72,425	74,210	1,785	2.4%	74,210	97.6%	3.1%
Total O&M before Depreciation		241,618	279,656	265,391	(14,265)	-5.4%	265,391	105.4%	15.7%
Operating Income Before Depreciation		219,528	209,691	211,086	(1,395)	-0.7%	211,086	99.3%	-4.5%
Depreciation		141,588	145,849	147,070	1,221	0.8%	147,070	99.2%	3.0%
Total O&M and Depreciation		383,206	425,505	412,460	(13,044)	-3.2%	412,460	103.2%	11.0%
Operating Income after Depreciation		77,939	63,843	64,017	(174)	-0.3%	64,017	99.7%	-18.1%

EXECUTIVE SUMMARY

The 2008 Port of Seattle's overall operating revenues are \$489.3 million, \$12.9 million above the budget. Overall operating expenses are \$279.7 million, \$14.3 million above budget. Operating income before depreciation is \$209.7 million, \$1.4 million below the budget. Operating income after depreciation is \$63.8 million, \$174 thousands below the budget.

Port-wide capital spending is \$327.6 million for the year, \$250.5 million below the budgeted \$578.1 million.

Within the Aviation Division, total non-airline revenues were over budget by \$2.28 million as Public Parking ultimately underperformed against the budget, tempering the favorable variances in Concessions, Commercial Properties, Utilities and Ground Transportation. The total operating expenses were \$6 million greater than the budget mainly due to Other Post-Employment Benefits (OPEB) to Firefighters (\$4.4 million), unbudgeted credit card fees and other assorted items in Airport Operations (\$2.64 million), deicing fluid purchases and worker's comp claims in Maintenance (\$1.28 million), expensing of capital-related write-offs (\$2.8 million) and of environmental-related projects (\$2.5 million) as required by new accounting rules (GASB 49). To lessen the impact of overspending, other aviation departments have saved \$5.1 million over approved budget in addition with over \$2 million in savings from Corporate/Seaport/Real Estate allocations. Total capital spending for 2008 was \$209.8 million, or 69% of the approved annual budget amount of \$303.84 million.

Total Seaport revenues were \$95.1 million, \$7.1 million favorable to budget due to receipt of retroactive grant money from the Department of Ecology for Terminal 5 and Harbor Island superfund sites partially offset by lower than anticipated Security Grant Revenue. Security Grant projects are commencing later than assumed in budget. Expenses were \$45.4 million, \$1.9 million unfavorable to budget due to higher than anticipated Environmental Reserve expense related to 2008 implementation of GASB 49, partially offset by delayed spending on Security Grant projects. NOI before Depreciation was \$49.7 million, \$5.2 million favorable to budget and \$5.8 million above 2007. Depreciation was \$28.5 million, \$0.5 million favorable to budget. NOI after Depreciation was \$21.2 million, \$5.7 million favorable to budget and \$8.5 million above 2007. Seaport capital spending for 2008 was \$88.5 million, or 70.0% of the approved annual budget amount of \$126.9 million.

Total Real Estate revenues were \$34.9 million, \$2.7 million favorable to budget primarily due to more event activity at Bell Harbor International Conference Center than budgeted. Expenses were \$38.8 million, \$6.1 million unfavorable to budget primarily due to expensing of costs that had been capitalized in connection with a plan to develop North Bay. NOI before Depreciation was (\$3.9) million, \$3.4 million unfavorable to budget. NOI after Depreciation was (\$14.0) million, \$3.7 million unfavorable to budget. Real Estate capital spending for 2008 was \$21.2 million, or 17.0% of the approved annual budget amount of \$125.3 million.

Corporate Professional and Technical Services revenues for 2008 were \$477 thousand favorable compared to the approved budget due to higher Police operating grants. Operating expenses for 2008 were \$72.4 million, \$1.8 million or 2.4% favorable compared to the approved budget and \$2.2 million or 3.1% higher than 2007. This favorable variance was primarily due to several position vacancies during the year and other cost savings realized in several departments.

CAPITAL SPENDING RESULTS

	(\$ Millions)
<u>Annual Results:</u>	
2008 Plan of Finance	619.2
2008 Approved Budget	578.1
2008 Actuals	327.6
Variance (Budget vs Actuals)	250.5

PORTWIDE INVESTMENT PORTIFOLIO

The investment portfolio for 2008 earned 4.04% against our benchmark (The Merrill Lynch 3-year Treasury/Agency Index) of 2.01%. Since the Port has become its own Treasurer in 2002, the Port's portfolio life-to-date has earned 3.90% against our benchmark of 3.13%.

II. AVIATION DIVISION PERFORMANCE REPORT 12/31/08

Summary of Results

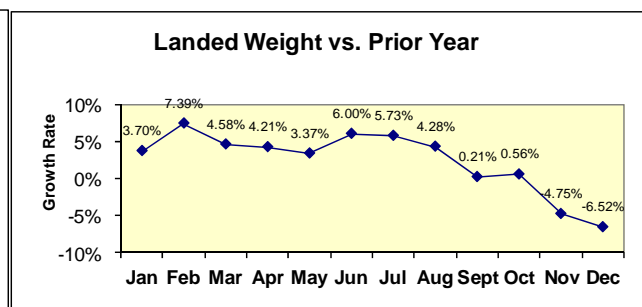
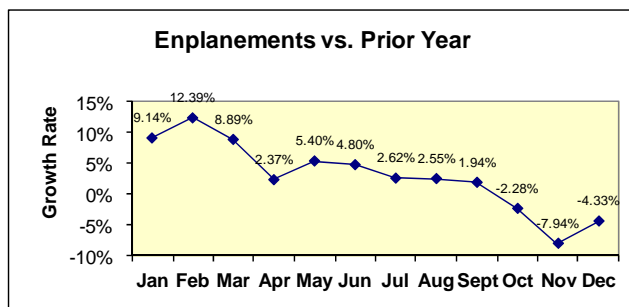
	\$ in 000s	2006	2007	2008	2008	Actual/Budget	
		Actual	Actual	Budget	Actual	Var \$	Var %
Operating Revenues							
Landing Fees		46,730	53,158	58,878	65,633	6,756	11.5%
Terminal Rental		128,957	129,145	126,224	125,548	(676)	-0.5%
Other Aero Revenues		10,685	11,569	12,465	11,651	(814)	-6.5%
Airline Revenues		186,372	193,872	197,567	202,833	5,266	2.7%
Non-Airline Revenues		141,501	143,975	149,036	151,321	2,284	1.5%
Other Revenues		9,627	9,640	9,238	4,526	(4,712)	-51.0%
Total Operating Revenues		337,500	347,487	355,842	358,680	2,838	0.8%
Total Operating Expenses							
		160,811	171,624	187,982	194,042	(6,060)	-3.2%
Net Operating Income		176,689	175,864	167,860	164,639	(3,222)	-1.9%
Capital Expenditure		362,110	298,387	303,835	209,813	94,022	30.9%
Passenger Airline CPE		11.79	11.73	11.63	11.87	(0.24)	-2.1%

- For 2008, we experienced a positive variance in non-airline revenues of \$2.28 million as Public Parking ultimately underperformed against the budget, tempering the favorable variances in Concessions, Commercial Properties, Utilities and Ground Transportation.
- Expenses were \$6 million greater than the budgeted mainly due to OPEB benefits to Firefighters (\$4.4 million), unbudgeted credit card fees and other assorted items in Airport Operations (\$2.64 million), deicing fluid purchases and worker's comp claims in Maintenance (\$1.28 million), expensing of capital-related write-offs (\$2.8 million) and of environmental-related projects (\$2.5 million) as required by new accounting rules (GASB 49). To lessen the impact of overspending, other aviation departments have saved \$5.1 million over approved budget in addition with over \$2 million in savings from Corporate/Seaport/Real Estate allocations.
- Total capital spending for 2008 was \$209.8 million, or 69% of the Approved Annual Budget amount of \$303.84 million.

Traffic Volume

Year End Results

	in 000s	2007	2008	%	2007	2008	%
		Q4	Q4	Variance	YTD	YTD	Variance
Enplanements		3,824	3,640	-4.8%	15,662	16,085	2.7%
Landed Weight		5,246	5,061	-3.5%	21,014	21,516	2.4%



- Both enplanements and landed weight for Q4 2008 were significantly lower than that of Q4 2007 (-4.8% and -3.5% respectively).
- Over the course of the entire year, enplanements grew 2.7% from 2007. Landed weight in 2008 saw an increase of 2.4% over last year.

II. AVIATION DIVISION PERFORMANCE REPORT 12/31/08

A. BUSINESS EVENTS

- Third Runway opened on November 20th.
- Extreme snowfall disrupted normal airline operations in December. Airport activated multi-day emergency center to manage situation while assisting airlines and travelers.
- Alaska/Horizon is now entirely on the new C-1 baggage handling system.
- Received Commission approval for Preconditioned Air project.
- Installed six electric vehicle charging stations in parking garage.
- Gate allocation process for 2009 completed. Alaska Airlines will now consolidate most of their gates at N Satellite and Concourse C.
- Commission voted to suspend Rental Car Facility construction due to lack of long-term funding.
- Negotiations with Midway Sewer have reduced Biochemical Oxygen Demand surcharges.

B. GOALS AND STRATEGIC ISSUES PROGRESS

OBJECTIVES	STATUS (Q4)
<p><u>AERONAUTICAL</u></p> <ul style="list-style-type: none"> ➔ Complete a strategic master plan for terminal development by the end of 2008 ➔ Implement a targeted marketing program and cargo facility and infrastructure enhancement plans to meet the region's growing demand for air cargo service by the end of 2008 ➔ Identify and analyze cost drivers for aeronautical operating costs 	<p>Long-term FIS study will be completed in early 2009, including optimization of existing location. Coordination with Delta/Northwest on Phase 1 merger facility needs.</p> <p>North cargo redevelopment study to be completed in early 2009. This will clarify cargo facility needs and options.</p> <p>Briefing document on CPE target setting sent to Commission in November. Aviation will work with Commission to set 5-7 year CPE target in early 2009.</p>
<p><u>CUSTOMER SERVICE</u></p> <ul style="list-style-type: none"> ➔ Relocate permitted smoking areas away from those areas regularly used by non-smokers. ➔ Upgrade terminal facilities to create a more welcoming and efficient arrivals experience for arriving international travelers; including a strong 'Seattle' sense of place. ➔ Evaluate the marketability and customer service enhancement possibilities of a "Registered Traveler" program at Sea-Tac; present recommendations to Commission. ➔ Improve the quality and availability of one-on-one customer service assistance provided by Sea-Tac (paid and volunteer) customer service staff. ➔ Create a new consumer-oriented airport website. 	<p>Proposal completed to add bold new signage to curbside window area to delineate smoking areas.</p> <p>Short term improvement to FIS completed.</p> <p>Further development of ESP concept to provide new parking, lounge access and 'registered traveler' products.</p> <p>New volunteer coordinator's efforts have resulted in increased volunteer recruitment. The program has now approximately 85 volunteers</p> <p>Business case for website redesign complete, preparations for Commission presentation</p>

II. AVIATION DIVISION PERFORMANCE REPORT 12/31/08

OBJECTIVES	STATUS (Q4)
<p><u>EMERGENCY PREPAREDNESS</u></p> <ul style="list-style-type: none"> ➔ Complete the Airport Emergency Plan rewrite/update by July 1 ➔ Conduct Homeland Security required emergency training and exercise programs by the end of 2008 ➔ Design and implement an outreach plan by the end of 2008 ➔ Train staff to the Airport Emergency Plan 	<p>Completed and adopted by the FAA on schedule</p> <p>2008 classes were conducted and reported as scheduled. 2009 classes are being scheduled now.</p> <p>Completed On schedule. Outreach activities will be ongoing</p> <p>A training plan is being developed modeled to each workgroup.</p>
<p><u>ENVIRONMENTAL LEADERSHIP</u></p> <ul style="list-style-type: none"> ➔ Engage all airport stakeholders to assist in defining the strategic environmental focus areas for the airport. ➔ Launch a campaign that engages, educates and instills a sense of personal responsibility for environmental performance within the Aviation Division. ➔ Establish an environmental “footprint” measurement mechanism that provides a means of regularly evaluating the performance and impact of the airport’s actions. ➔ Implement an alternative fuel and emission reduction policy for the airport’s ground sources of emissions. ➔ Develop and implement a policy that complies with EX-15 and requires LEEDS experience for design consultant selection processes at the airport. 	<p>Work continues on the development of the five-year strategy plan. The strategy plan is being functionally organized around environmental performance factors (KPIs). Working groups have identified goals, objectives and actions.</p> <p>Environmental Leadership Strategy team is in process of being reorganized so that it is more proficient in identifying, tracking and prioritizing environmental initiatives at Sea-Tac. Reorganization will result in the creation of seven working groups, each group corresponding to one of the KPIs.</p> <p>Commission directed staff in March to establish targets for GHG emission reduction at the airport. Reduction goals for GHG emissions related to Sea-Tac operations have been identified. Moreover, POS is a founding member of The Climate Registry (TCR), and as such is committed to reporting our Scope 1 and Scope 2 (Port-specific emissions) every year beginning June 2009.</p> <p>A Phase I assessment determined that a hotel shuttle consolidation program would make sense at Sea-Tac for essentially all hotels servicing the airport; saving both emissions and vehicle access to the airport. Upon sharing the information with hoteliers, discussion/concern about the process has been stated. We are trying to convince the hoteliers that we do not wish to manage or play an integral role in operating a shuttle consolidation program. Because of this concern, Phase II (a logistical look at how to implement the program) is on hold until 2009.</p> <p>Design standards for architectural, signage, casework, mechanical and electrical were all updated to include environmental and sustainability performance measures. Completed in December.</p>

II. AVIATION DIVISION PERFORMANCE REPORT 12/31/08

OBJECTIVES	STATUS (Q4)
<p><u>HIGH PERFORMANCE WORKPLACE</u></p> <ul style="list-style-type: none"> ➔ Ensure that every full-time airport employee has an employee development plan in place and that supervisors make available appropriate employee development opportunities. ➔ Foster a workplace that supports challenges to the status quo, incorporates new ideas and knowledge, and continuously strives for improvement by establishing an effective communication program that allows Aviation Division staff to offer ideas and feedback on how to make the airport a “best place to work.” ➔ Establish an Aviation Division-wide mentoring program that matches employees with mentors. ➔ Achieve a workplace injury rate 10% below the national average and provide all employees with the tools and resources necessary to gain and maintain a healthy lifestyle. 	<p>Airport Director’s Office initiated a top-down requirement for all staff to update development plans.</p> <p>Continued sponsorship of Critical and Strategic Thinking training. Implemented Continuity Of Operations Planning (COOP) pilot project.</p> <p>20 mentor/mentee matches port-wide, 1/3 in the Aviation Division.</p> <p>Aviation’s Occupation Injury Rate (OIR) is 7.79 per 100 workers as compared to the national average of 4.4 per 100 workers. Initiated SafeStart training.</p>
<p><u>NON-AERONAUTICAL</u></p> <ul style="list-style-type: none"> ➔ Initiate development of key Port properties in SeaTac, Burien and Des Moines as soon as practicable. ➔ Create new concession opportunities that provide for a more complete array of products and services for the traveling public. ➔ Increase advertising revenues through value added promotion programs that do not detract from the ambience of airport facilities. ➔ Accommodate the rental car industry in a long-term consolidated facility by 2011. ➔ Continue to increase parking business net income through new pricing and innovative services. 	<p>Work on redevelopment plan with City of Burien for NERA (Northeast Redevelopment Area) continues. Purchase of 7th Day Adventist Church property in Burien completed. Discussing next steps with City of Des Moines regarding preparing Des Moines Creek Business Park for redevelopment. Study of opportunities for redevelopment of Tyee Golf Course completed.</p> <p>Regus Business Center cleared for construction start in January 2009. Infrastructure for kiosk/RMU program complete in April 2009. GML Arrivals Hall restaurant delayed until investment climate for small business improves. RFP planned for 2010.</p> <p>Current work focuses on identifying potential new inventory within display advertising categories where sales maintain strength in a very challenging climate for advertising.</p> <p>Construction of rental car facility suspended in December due to lack of long-term financing. Efforts continue to find viable financing plan.</p> <p>Parking revenues dropped below budget beginning in August and September. Total 2008 gross parking revenues were \$2.3 million under budget for the year. However, total gross parking revenues increased from \$52.5 million in 2007 to \$53.2 million in 2008, or 1.4%.</p>

II. AVIATION DIVISION PERFORMANCE REPORT 12/31/08

OBJECTIVES	STATUS (Q4)
<p><u>SMALL BUSINESS</u></p> <ul style="list-style-type: none"> ➔ Finalize by April 1 an accurate and comprehensive record keeping process that effectively tracks all Aviation Division small business participation. ➔ By July 1, 2008, identify the procedures and practices which dampen small business and Aviation Division participation in the Port's Small Business Initiative and initiate a strategy for their restructuring or removal. ➔ By end of 2008, achieve 10% target of all service and product contracts with the Aviation Division will be with qualified small businesses. ➔ Roll out in 2008 a community outreach program that publicizes the Port's small business opportunities ultimately resulting in ten new small businesses enrolling on the Port's small business roster and five new small businesses providing goods and services to the airport. ➔ By end of 2008, complete the airport's Small Business Initiative and roll it into the larger effort led by the Port's Office of Social Responsibility. 	<p>Done</p> <p>Done</p> <p>8.43% of 2008 service and product contracts were with qualified small businesses.</p> <p>Final figures for 2008 still being compiled</p> <p>Done</p>
<p><u>SUPPORTIVE COMMUNITY</u></p> <ul style="list-style-type: none"> ➔ Partner with Airport Jobs and within the community to increase educational and career advancement opportunities for airport employees by obtaining new scholarship money for and expanding class offerings at Airport University. ➔ Engage employees in each Aviation Division department to identify and implement how -- either through their expertise or their relationships with tenants and customers -- they can directly support the airport communities. ➔ Enhance youth understanding and interest in the aviation industry through the implementation of a local high school internship program that regularly brings students to work at the airport. 	<p>Community Development acted as a liaison between Airport Jobs and Highline Community College to develop a partnership to offer Airport University classes. Three classes are now being offered at the Airport.</p> <p>Initiated a new internship program for local High School students.</p> <p>Environmental Programs implemented an Environmental Challenge program at Aviation HS. Held Aviation Academy for 80 freshmen from Aviation HS. Awarded \$14K in scholarships in concert with Host Int'l and Highline Schools Foundation. Port HR implemented new internship program where 6 high school interns were hired for summer. New job shadowing program for Aviation HS students was implemented.</p>

<p>→ Use the third runway opening milestone as a means of celebrating with the local communities the efforts to mitigate the impacts of the airport on the surrounding area and the creation of positive working relationships going forward.</p> <p>→ Achieve success in development projects within the local jurisdictions.</p>	<p>Runway opening was held and involved community leaders. Multiple tours were given to elected officials, community leaders and area residents. Information was provided to the community at a community Open House and on-going communication and information was provided about runway construction, testing and flight activity once opened. The Airport Director provided information about the commissioning of the runway through speeches and his stakeholder newsletter.</p> <p>Burien and the Port agreed on a scope of work for redevelopment planning of NERA and selected a developer. Hosted a meeting between Burien and SeaTac to begin cooperative traffic planning related to truck routes for both Burien and SeaTac development.</p>
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C. KEY INDICATORS

<i>\$ in 000s</i>	2006 Actual	2007 Actual	2008 Budget	2008 Actual	Actual/Budget Var \$	Var %
Non-Aero Financial Performance						
Revenues	141,501	143,975	149,036	151,321	2,284	1.5%
Operating Expense	<u>48,563</u>	<u>56,261</u>	<u>67,330</u>	<u>63,534</u>	<u>3,796</u>	<u>5.6%</u>
NOI	92,938	87,714	81,706	87,787	6,081	7.4%
Aeronautical Operating Expense	112,465	114,764	120,652	129,648	(8,996)	-7.5%
Airport Vitality Measures						
Operating Cost / Enpl	10.73	10.97	11.72	12.06	(0.34)	-2.9%
Non-Airline Revenues / Enpl	9.45	9.19	9.29	9.41	0.12	1.2%
Key Measures						
Passenger Airline CPE	11.79	11.73	11.63	11.87	(0.24)	-2.1%
Non-Aeronautical NOI	92,938	87,714	81,706	87,787	6,081	7.4%
Other Key Measures						
Non-Airline Revenue / Total Rev	41.9%	41.4%	41.9%	42.2%	0.31%	0.7%
Parking Revenue / Enpl	3.51	3.54	3.79	3.77	(0.02)	-0.5%
Concession Revenue / Enpl	1.89	1.98	1.99	2.09	0.10	5.0%
Primary Concession Sales / Enpl	9.00	10.02	10.15	10.29	0.14	1.4%
Traffic						
Enplanements	14,982	15,662	16,040	16,085	45	0.3%
Landed Weight	20,362	21,014	21,320	21,516	196	0.9%
Airline Surplus/Deficit						
Landing Fees	2,016	1,585	(19)	(8,224)	(8,205)	n/a
Terminal Rents	<u>(7,669)</u>	<u>8,153</u>	<u>0</u>	<u>9,065</u>	<u>9,065</u>	<u>n/a</u>
Net Surplus/(Deficit)	(5,652)	9,738	(19)	841	860	n/a

Highlights

- Non-aeronautical NOI was \$6.08 million over the budget due to higher revenues in Concessions, Commercial Properties, Ground Transportation and Utilities. In addition to revenue drivers, there were significant expense savings in Business Development and changes to tariffs and billing rates in Utilities which ultimately drove non-aeronautical expenses down.
- CPE for 2008 came in higher than both the budget and the 2007 actual, primarily due to increased costs allocated to aeronautical cost centers and enplaned passengers regressing towards the originally budgeted levels.
- Primary concession sales per enplanement were \$10.29, slightly better than budgeted.
- We now have an \$841K year-end billing surplus to the airlines at the end of the year. Despite snow removal costs and other expenses hitting the airfield cost centers, terminal billings were greater than expected, along with a \$2.5 million environmental settlement reached with Northwest Airlines which lowered terminal rental revenue requirements.

II. AVIATION DIVISION PERFORMANCE REPORT 12/31/08

D. OPERATING RESULTS---- IN THOUSANDS\$

[REPORTED BY SUBCLASS]

In \$ Thousands	2008 Year-to-Date		2008 Variances	
	Actual	Budget	\$	%
Airline Revenues				
Landing Fees	65,633	58,878	6,756	11.5%
Terminal Rents	125,548	126,224	(676)	-0.5%
Other Airline Revenues	11,651	12,465	(814)	-6.5%
Subtotal	202,833	197,567	5,266	2.7%
Non-Airline Revenues				
Public Parking	59,111	60,870	(1,759)	-2.9%
Rental Cars	36,019	36,014	5	0.0%
Concessions	33,547	31,853	1,694	5.3%
Other	22,644	20,300	2,344	11.5%
Subtotal	151,321	149,036	2,284	1.5%
Security Grants	1,087	787	300	38.1%
Fuel Hydrant	3,440	8,451	(5,012)	-59.3%
Total Revenue	358,680	355,842	2,838	0.8%
Expenses				
O&M Expenses	149,484	141,397	(8,087)	-5.7%
Corp Allocations	44,557	46,584	2,027	4.4%
Total Operating Expense	194,042	187,982	(6,060)	-3.2%
NOI Before Deprec.	164,639	167,860	(3,222)	-1.9%
Total Depr Expense	107,349	108,427	1,078	1.0%
NOI After Deprec.	57,290	59,433	(2,144)	-3.6%
Grants & Donations Revenue	37,783	75,709	(37,926)	-50.1%
PFC Revenues	60,708	59,941	767	1.3%
CFC Revenues	22,947	19,960	2,987	15.0%
Non-Operating Rev/Exp	(103,790)	(95,786)	8,004	-8.4%
Excess of Revenue Over Exp.	74,937	119,257	(44,320)	-37.2%

Revenues

Year End Results

- Public Parking revenues were down \$1.75 million compared to budget. Though daily and weekly parking rates increased in November 2007, parking revenue per enplanement fell to \$3.77, two cents off of the budgeted \$3.79.
- Ground Transportation was \$328K greater than budgeted levels on account of increased activity from taxis and courtesy vehicles.
- Commercial Properties revenues ended up \$958K or 19% over budget from In-Flight Meals revenue and Sound Transit and Radisson payments being greater than budgeted.
- Concessions finished the year \$1.69 million or 5.3% over budget due to performance in food & beverage concessions and increased space rentals.
- The total non-airline revenues were \$2.06 million or 1.4% over budget for 2008.

Expenses

Year End Results

- Total division operating costs were over budget by \$8 million on an Org basis and \$6 million on a subclass basis mainly due to expenses related to OPEB benefits to Firefighters (\$4.4 million), unbudgeted credit card fees and other assorted items in Airport Operations (\$2.64 million), deicing fluid purchases and worker's comp claims in Maintenance (\$1.28 million), expensing of capital-related write-offs (\$2.8 million) and of asbestos-related projects (\$2.5 million) as required by new accounting rules (GASB 49). To lessen the impact of overspending, other aviation departments have saved \$5.1 million versus budget in addition with over \$2 million in savings from Corporate/Seaport/Real Estate allocations.

Non-Ops

Year End Results

- FAA grant revenue was \$11.2 million less than budgeted and TSA grant revenue was \$29.1 million less than budgeted, leading to a shortfall for the year in Grants & Donations of \$37.9 million after factoring in \$2.48 million in unbudgeted donations and grants.
- CFC revenues were nearly \$3 million greater than budgeted due to increase in rate to \$5 effective July 1st.

II. AVIATION DIVISION PERFORMANCE REPORT 12/31/08

E. CAPITAL SPENDING RESULTS (000's)

Sponsor	2008	2008	Variance		Plan of Finance
	Actual	Budget	\$	% of Bud	
Airfield					
Airfield Pavement (1)	7,313	5,870	1,443	124.6%	4,571
Other	1,779	2,267	(488)	78.5%	5,919
Subtotal	9,092	8,137	955	111.7%	10,490
Business Development					
Properties (2)	5,310	2,184	3,126	243.1%	1,000
Other (3)	3,450	7,587	(4,137)	45.5%	8,088
Subtotal	8,760	9,771	(1,011)	89.7%	9,088
Division Wide					
Facilities (4)	3,068	7,132	(4,064)	43.0%	10,471
Miscellaneous (5)	1,266	3,818	(2,552)	33.2%	(928)
Other	24,973	32,580	(7,607)	76.7%	23,456
Subtotal	29,307	43,530	(14,223)	67.3%	32,999
Facilities & Infrastructure					
Mechanical Systems (6)	4,633	7,346	(2,713)	63.1%	6,226
Other	2,032	3,391	(1,359)	59.9%	9,658
Subtotal	6,665	10,737	(4,072)	62.1%	15,884
Landside					
Rental Cars (7)	39,592	58,181	(18,589)	68.0%	79,469
Other (8)	672	2,364	(1,692)	28.4%	6,017
Subtotal	40,264	60,545	(20,281)	66.5%	85,486
Noise Program					
Acquisition	16,429	20,764	(4,335)	79.1%	19,598
Residential Insulation (9)	1	6,020	(6,019)	0.0%	4,657
School Insulation (10)	4,054	14,351	(10,297)	28.2%	11,852
Subtotal	20,484	41,135	(20,651)	49.8%	36,107
Security Program (11)	35,954	48,467	(12,513)	74.2%	61,129
Stormwater Program	2,230	1,283	947	173.8%	5,902
Terminal & Tenants					
STEP (12)	14,167	24,233	(10,066)	58.5%	21,729
Ticketing Strategy (13)	188	7,099	(6,911)	2.6%	7,086
Other	15,269	18,853	(3,584)	81.0%	18,972
Subtotal	29,624	50,185	(20,561)	59.0%	47,787
Third Runway Projects	27,433	30,045	(2,612)	91.3%	49,366
Division Grand Total	209,813	303,835	(94,022)	69.1%	354,238

Footnotes

- 1) 16L/34R Reconstruction project was added mid-year and therefore not part of the 2008 Plan of Finance.
- 2) Street Vacations/DM Creek elevated from business plan prospective project during the year.
- 3) Concessions Flooring project delayed to avoid summer peak travel season. Tenant Reimbursements difficult to project.
- 4) Consolidated Warehouse project was delayed and a new site presented to Commission due to the need for value engineering cost reductions.
- 5) ARFF Station Update project was re-scoped and redesigned due to bids exceeding the engineers estimate.
- 6) Garage Escalator and "A" Elevator project delayed due to value engineering cost reduction and to minimize bid climate risk and ensure multiple bidders.
- 7) Rental Car Facility construction suspended pending improvement in the bond market.
- 8) South Access project cancelled and expensed.
- 9) Home Insulation Retrofit has slowed while research on remaining eligible parcels is being completed. Single Family Home Sound Insulation has slowed because of the contract process.
- 10) Expenditures dependent on Highline School District schedule.
- 11) Main Terminal 100% Baggage Screening behind schedule.
- 12) The dispute resolution process involving the STEP Security Bag and Checkpoint project has delayed schedule.
- 13) Alaska 2-Step project has been delayed as a result of delays in the C-1 project.

FINANCIAL SUMMARY

- Total Seaport revenues were \$95.1 million, \$7.1 million favorable to budget due to receipt of retroactive grant money from the Department of Ecology for Terminal 5 and Harbor Island superfund sites partially offset by lower than anticipated Security Grant Revenue. Security Grant projects are commencing later than assumed in budget.
- Expenses were \$45.4 million, (\$1.9) million unfavorable to budget due to higher than anticipated Environmental Reserve expense related to 2008 implementation of GASB49, partially offset by delayed spending on Security Grant projects. Security Grant projects are commencing later than assumed in budget.
- NOI before Depreciation was \$49.7 million, \$5.2 million favorable to budget and \$5.8 million above 2007.
 - Containers and Support Properties Services \$34.5 million, (\$2.2) million unfavorable to budget.
 - Cruise and Industrial Properties \$13.5 million, \$3.6 million favorable to budget.
 - Environmental Grants/Reserve \$2.8 million, \$3.6 million favorable to budget.
 - Security (\$1.2 million), \$0.2 million favorable to budget.
- Depreciation was \$28.5 million, \$0.5 million favorable to budget
- NOI after Depreciation was \$21.2 million, \$5.7 million favorable to budget and \$8.5 million above 2007.

A. BUSINESS EVENTS

- TEU volumes for Seattle Harbor are down 13.6% in 2008 compared to 2007 levels. Total 2008 volume is 1,704K TEU's. 2008 full inbound TEU's are down 17.2%, full outbound TEU's are down 11.9. Key service changes impacting the results were the loss of MOL's PSX service to Tacoma (65K TEU's) and the implementation of COSCO's new service through Prince Rupert (53K TEU's).
- 2008 Cruise season ended with record passenger volumes of 886,039 passengers and 210 sailings, which reflected a 13.5% increase in passengers over 2007 volumes. Seattle cruise passenger volume exceeded Vancouver cruise passenger volume for the Alaska cruise market, for the first time in 2008.
- Grain vessels shipped an all time record volume of 6,401K metric tons of grain through Terminal 86 in 2008, which represents an increase of 20.0% over 2007 volume and an 8.5% increase over the prior record volume of 5,902K metric tons in 2006.
- Reactivation of Terminal 30 to a container facility is on schedule for completion in May 2009.
- Received \$8.8 million in retroactive grant money from the Department of Ecology for Terminal 5 Puget Sound Resources and Harbor Island sediment superfund sites.
- As part of the Northwest Ports Clean Air Strategy, developed and implemented plan for ship and cargo handling equipment emissions reduction.
- SR-519 Phase II Memorandum of Agreement was finalized and Commission Approved Port of Seattle funding.

B. KEY INDICATORS

- Total 2008 TEU volume was 1,704K down (13.6%) from 2007. Full inbound TEU's were down (17.2%) and full outbound down (11.9%).
- Grain record volume at 6.4 million metric tons is up 20% from 2007.
- Cruise record passenger volumes of 886,000 an increase of 13.5% over 2007.

III. SEAPORT DIVISION PERFORMANCE REPORT 12/31/08

C. INITIATIVES, GOALS AND MEASURES

OBJECTIVES	2008
<p>ENSURE SEAPORT VITALITY. Achieve financial objectives—\$45 Million NOI (excluding Environmental Reserves and Grants) for full year 2008: In 2008, each business unit will contribute to the goal as follows:</p> <ul style="list-style-type: none"> ➔ Container & Support Properties — \$36.8 Million ➔ Cruise and Industrial Properties — \$9.9 Million ➔ Security —\$(1.5) Million ➔ Environmental — no target <p>Provide compelling value that will attract and retain customers, and which will further the Port’s financial objectives:</p> <ul style="list-style-type: none"> ➔ Meet key milestones in our capital plan <ul style="list-style-type: none"> • Terminal 18 North Apron Project Completion (Mach) • T30/T91 project progress (Zahn) <p>➔ Implementing long term agreements with cruise lines that currently utilize Seattle as a homeport. (McLaughlin)</p> <p>Preserve our assets and increase their utilization:</p> <ul style="list-style-type: none"> ➔ Bringing all in-use Port-owned cranes to fully operational status (Burke) ➔ Establishing crane audit procedures (Burke) ➔ Identifying and acquiring off-dock support land (Burke) ➔ Increasing container business marketing efforts both directly and in conjunction with our terminal tenants (Styrk) ➔ Developing formal terminal condition reports with our tenants (Burke) ➔ Developing asset management plans for other facilities (Burke/McLaughlin) 	<p>YTD is \$46.9 million, \$1.6 million favorable to Budget.</p> <p>YTD is \$34.5 million, (\$2.2) million unfavorable to budget.</p> <p>YTD is \$13.5 million, \$3.6 million favorable to budget.</p> <p>YTD is (\$1.2) million, \$0.2 million favorable to budget. YTD is \$2.8 million, \$3.6 million favorable to budget.</p> <p>Seaport spent 70% of the 2008 Approved Capital Budget.</p> <p>Project completed on schedule and within budget.</p> <p>Project is on schedule. Authorization for additional funding to cover higher T91 building foundation costs and T30 upland disposal costs approved by Commission.</p> <p>Agreement in progressing of being finalized, Commission approval granted in December of this year.</p> <p>Contingency plan to expedite repairs with back up gear boxes in place for Terminal 46 ZPMC cranes.</p> <p>Reviewing maintenance records for Terminal 46 and establishing ongoing record requirements.</p> <p>Search for properties will be performed by Real Estate Division with support by Container & Support Properties. Reviewed key elements of requirements with Real Estate Division.</p> <p>Target achieved, 394 contacts made.</p> <p>Held condition meetings with terminal operator tenants. Regular quarterly meetings are held with tenants on an ongoing basis.</p> <p>Focus on major container terminals initially, other facilities to follow.</p>

OBJECTIVES	2008
<p>DEVELOP NEW BUSINESS AND ECONOMIC OPPORTUNITIES FOR THE REGION AND THE PORT.</p> <ul style="list-style-type: none"> → Lease Terminal 106 (Burke) 	<p>Preparation under way to issue a Request for Proposal (RFP) to identify future use of this facility.</p>
<p>ENHANCE PUBLIC UNDERSTANDING AND SUPPORT OF THE PORT'S ROLE IN THE REGION.</p> <ul style="list-style-type: none"> → Conduct monthly speaking engagements in the community (Morris) → Providing internships for students (Buchholz) → Strive to purchase at least 15% of all goods and services from qualified small, minority-owned, women-owned and emerging business enterprises. (Buchholz) 	<p>9 speaking engagements in fourth quarter and 35 YTD.</p> <p>10 Interns (5 Seaport Marketing, 3 Environmental Services, 2 Planning).</p> <p>Full Year 2008: 5.57% of expense and 9.29% of capital. Combined 6.87%.</p>
<p>BE A CATALYST FOR REGIONAL TRANSPORTATION SOLUTIONS.</p> <ul style="list-style-type: none"> → Complete the Spokane Street/Terminal 18 congestion mitigation study 	<p>Put on hold due to more pressing traffic issues impacting Terminal 46.</p>
<ul style="list-style-type: none"> → Ensure that construction and design of the Alaskan Way Viaduct replacement do not adversely affect operations 	<p>Construction and traffic mitigation plans reviewed and comments submitted. Design and construction management changes made.</p>
<p>BE A LEADER IN TRANSPORTATION SECURITY.</p> <ul style="list-style-type: none"> → Meet the milestones of the Port's security program → Increase the Port's security score by continuing to reduce our vulnerability for security incidents in Port facilities → Ensure successful implementation of the Transportation Worker Identification Credential(TWIC) requirements 	<p>The 2008 milestones established for the Seaport Security Program are:</p> <ul style="list-style-type: none"> • Emergency Preparedness – Business Continuity Planning continuing. • Terminal 91 MTSA Revised Facility Security Plan submitted to Coast Guard for approval. • Domestic Nuclear Detection Office - Small vessel Radioactive Material Detection Program completed and equipment delivered. • Emergency Management Resources – Initial Emergency Coordination Center/Situation Room equipment received with supplemental items deferred. <p>Port Security Grants 6 & 7 enhancing improvements to Marine Domain Awareness and Security Monitoring. Rounds 7B/8 have developed a Port Resiliency/Recovery Plan for the Area Maritime Security Committee to be submitted to DHS for approval next quarter.</p> <ul style="list-style-type: none"> • Focusing outreach materials to specific industry segments. • Meeting Facilitation – Outreach Meetings held at Port of Seattle and Tacoma. Trucker information distributed to key locations. • Enrollment of Staff – All critical personnel have enrolled with 2nd phase staff enrolling as needed. • TWIC Implementation to start February 28, 2009.

OBJECTIVES	2008
<p>EXHIBIT ENVIRONMENTAL STEWARDSHIP THROUGH OUR ACTIONS.</p> <ul style="list-style-type: none"> → Achieve/maintain zero regulatory violations → Implementing Northwest Ports Clean Air Strategy → Develop stormwater best management practice program → Develop Duwamish River plan integrating maritime industrial uses, public shoreline access, treaty fishing, and habitat restoration. 	<p>Violations regarding over dredging at Terminals 30 and 91 were discovered and self reported in the 1st half of the year. These issues were resolved with the Army Corps of Engineers regulators by year end.</p> <p>Further developed implementation plans for Trucking and completed implementation plan for Ocean Going Vessels. Developed reporting and verification framework with Port of Tacoma and Port of Metro Vancouver.</p> <p>Stormwater pollution prevention plan is on schedule to be completed by March 2009 and the operations and maintenance program has been developed. Both of these include Best Management Practices.</p> <p>Public meetings targeting both industrial users and community members were held. Separate outreach strategies implemented for community and water dependent businesses.</p>
<p>BE A HIGH PERFORMANCE WORKPLACE.</p> <ul style="list-style-type: none"> → Provide our staff with regular feedback and support by completing 100% of staff performance reviews one week before the anniversary date → Complete PREP plans with training, development, and diversity components → Achieve a perfect safety score and zero accidents by providing our staff with the necessary tools and training (Moses) 	<p>18% 1 week prior to anniversary date 26% by anniversary date 56% late</p> <p>100% of PREPs that were completed during 2008 had completed PREP plans with training, development and diversity components.</p> <p>OIR (Occupational Injury Rate) for the Seaport for 2008 was 0.0.</p>

III. SEAPORT DIVISION PERFORMANCE REPORT 12/31/08

D. OPERATING RESULTS – IN THOUSANDS \$

<i>In \$ Thousands</i>	2007 Actual	2008 Actual	2008 Budget	2008 Bud Var	
				\$	%
Operating Revenue	77,630	85,423	82,771	2,653	3%
Environmental Grants	973	8,833	207	8,626	4174%
Security Grants	1,292	850	5,004	(4,154)	-83%
Total Revenue	79,895	95,106	87,982	7,125	8%
Direct Expenses	17,359	21,877	21,993	116	1%
Security Expense	2,256	1,715	6,180	4,466	72%
Environmental Reserve	4,983	5,996	950	(5,046)	-531%
Allocations	11,423	15,829	14,357	(1,472)	-10%
Total Expense	36,020	45,417	43,480	(1,936)	-4%
NOI Before Depreciation	43,875	49,689	44,501	5,188	12%
Depreciation	31,198	28,465	28,951	486	2%
NOI After Depreciation	12,676	21,225	15,550	5,675	36%
NOI Excl Envir Grants/Reserve*	47,884	46,853	45,245	1,608	4%

NOTE:* NOI Excl Envir Grants/Reserve is Before Depreciation

Total Seaport revenues were \$7,125K favorable to budget. Key variances

Containers and Support Properties unfavorable (\$492K).

- Containers unfavorable (\$836K). **Space Rent unfavorable (\$1,785K)**. Terminal 5 is unfavorable due to termination of month to month lease on 23.2 acres of Option Area (\$1,337K) and due to understatement of the Terminal 5 straight-line rent adjustment in the Budget (\$553K). Terminal 18 unfavorable (\$71K) due to set up of reserve for Q1 2009 principal payment due on Special Facility Revenue Bonds. Amounts were not factored into Budget. Terminal 25/28 favorable \$178K due to expected rent abatement, not needed, during T30 Phase II construction. **Crane Rent Revenue \$156K favorable**. Terminal 46 favorable \$140K due to rate differential for box moves in excess of 2008 annual guaranteed minimum applied toward 2006 shortfall balance. Terminal 5 is favorable \$32K due to higher usage of Tariff cranes than factored into budget, partially offset by unfavorable rate variance. Terminal 18 unfavorable (\$16K) due to unfavorable rate variance. **Terminal 5 Intermodal Revenue (\$123K) unfavorable** due to lower than expected intermodal moves. **Contract Revenue \$439K favorable** due to King County reimbursement for 50% share of T-30 dredging upland disposal costs. **Utility Revenue \$277K favorable** due to acreage correction for drainage billing to containers terminals in 2008.
- Support Properties \$331K favorable due to recognition of revenue from Shippers Transport lease termination (\$228K), as well as from CPI increases and lease renewals (\$85K).

Cruise and Industrial Properties favorable \$3,145K.

- Cruise \$1,405K favorable - due to higher than anticipated passenger volumes (\$440K), 'Savings Rent' generated by lower than anticipated CTA operating expenses (\$408K), and other income higher than expected (\$557K).
- Bulk Terminals \$1,412K favorable. Terminal 86 grain volume exceeded budget by 16%.
- Docks \$547K favorable due to favorable barge activity from both preferential and non-preferential use customers and due to favorable fishing activity from preferential use customers.
- Industrial Properties unfavorable (\$234K) primarily due to lower than anticipated Utility Income, partially offset by lower than anticipated Utility Expenses. Other factors include an overstatement of Carnitech percentage rent (\$127K) in the Budget and an unfavorable variance related to two tenants budgeted in Seaport Division, but belonging in Real Estate Division (\$204K), partially offset by revenue recognition from the SCS lease termination at Terminal 25 South (\$75K) and by CPI increases not anticipated in the 2008 budget (\$341K).

III. SEAPORT DIVISION PERFORMANCE REPORT 12/31/08

Environmental Grants favorable \$8,626K due to receipt of retroactive grant money from the Department of Ecology for Terminal 5 and Harbor Island superfund sites.

Security Grants unfavorable (\$4,154K) due to Rounds 6 and 7 grant activities commencing later than planned, more than offset by a corresponding favorable expense variance. The remaining project grant activities are expected to occur in 2009 or early 2010.

Expenses were unfavorable (\$1,936K) to budget. Key variances:

- Security favorable \$4,466K primarily due to Round 6 and 7 grant activities commencing later than planned. Amount is partially offset by corresponding unfavorable revenue variance above.
- Environmental Reserve unfavorable (\$5,046K) due to implementation of GASB 49 in July.
- Litigated Injuries & Damages - favorable \$758K primarily due to adjustment to prior year accrual to recognize the Port's anticipated share of legal expenses for Wyckoff/Puget Sound Resources litigation matter.
- Maintenance unfavorable (\$1,270K) due to work on Terminal 46 Cranes, costs to repair a break in a water main at Terminal 104, costs to monitor the unoccupied warehouse building at Terminal 106, costs to prepare Terminal 91 building C-173 for a new tenant, and work at Terminal 5 which is to be reimbursed by the tenant. Amount partially offset by \$357K in Reimbursement Revenue for work done directly for tenants.
- Allocated Overhead to Capital Projects favorable \$507K due to higher percentage of overhead expenses charged to capital projects than assumed in Budget for Project Management.
- Corporate costs, direct and allocated, unfavorable (\$1,670K) due to Engineering and Port Constructions Services (unbudgeted expense projects completed for the Seaport), Corporate Contingency (audit related costs) and Economic & Trade Development. Amounts were partially offset by favorable variances from Human Resources, Procurement Services, Risk Management, Social Responsibility and Police.
- All other variances netted to a favorable \$319K or less than 1% of Total Expenses Budgeted.

NOI Before Depreciation was \$5,188K favorable to budget.

- Depreciation was favorable \$486K due to timing difference between actual and budgeted new asset in-service dates and due to budgeted depreciation for projects that were cancelled after completion of the budget.

NOI After Depreciation was \$5,675K favorable to budget.

CHANGE FROM 2007 ACTUAL

NOI Before Depreciation increased by \$5,814K from 2007 - primarily due to the \$8,833K in Environmental Grant revenue received in 2008 and the increase in the Eagle Rate on container terminal leases that went into effect on January 1, 2008. The 2008 revenue increase was partially offset by increased Environmental Reserve costs related to implementation of GASB 49 in 2008, higher than anticipated expenses due to FTE transfers related to the January 1, 2008 reorganization, the cost of T30 dredge upland disposal, relocation of cruise assets and T-30 shorepower, increased repair costs on T46 cranes, street use/permit fees, and costs associated with the performance audit response/compliance. Litigated Injuries & Damages expense was lower in 2008 due to an adjustment in the Port's anticipated share of legal expenses for Wyckoff/Puget Sound Resources litigation.

III. SEAPORT DIVISION PERFORMANCE REPORT 12/31/08

E. CAPITAL SPENDING RESULTS---IN THOUSANDS \$

SEAPORT DIVISION	2008		Variance to Budget	Actual as a % of Budget	2008 Plan of Finance
	2008 Actual	Approved Budget			
Terminal 30/91 Program	62,887	71,695	8,808	88%	67,253
Terminal 18	6,310	8,521	2,211	74%	14,042
Terminal 91	6,304	8,221	1,917	77%	9,931
Terminal 115	4,199	14,524	10,325	29%	7,496
Terminal 25	2,904	1,461	(1,443)	199%	2,475
Cruise	3,250	2,294	(956)	142%	2,379
Security	1,295	7,000	5,705	19%	5,947
Green Port Initiative	0	5,000	5,000	0%	5,000
Terminal 5	392	1,630	1,238	24%	1,760
Terminal 46 - Dock Operations	487	0	(487)	NA	0
Pier 24	58	646	588	9%	491
Terminal 10	93	2,913	2,820	3%	6,554
Small Projects	20	940	920	2%	940
Public Access at T30	57	528	471	11%	4,948
All Other	267	1,563	1,296	17%	2,740
Total Seaport	88,523	126,936	38,413	70%	131,956

Comments on Key Projects:

Seaport spent 70% of the 2008 approved capital budget for the Division.

New projects approved that were not included in the 2008 Capital Plan:

- Terminal 25 South Container Yard – \$4,400K approved for initial design, permitting, and Phase 1 construction.
- Terminal 91 City Ice Bldg W40 – \$450 approved for initial design, permitting and in-house demolition work.
- T10 Redevelopment – This project replaced the former T10 Uplands project with a new scope of work.
- Terminal 91 Mobile Gangways – \$6,460K approved for gangway procurement and installation at the new cruise terminal at T91.
- Terminal 46 North Slip Fender Improvement (Dock Operations) – \$825K approved to replace the failed timber fender pile system along 400 lineal feet of the north face of T46.

Projects with significant changes in spending were:

- Terminal 30/91 Program – A schedule slippage due to unforeseen field conditions at T91 resulted in delayed work performance and overall delay in contractor billings for T30 & T91. Project is scheduled to be completed in time for the 2009 cruise season.
- Terminal 115 Dock Reconstruction – Construction of Berths 2,3,4 & 5 is complete and the costs were less than expected. Berth 1 project has a late start date because additional sediment sample analysis was required by the agencies and the dredge work required revisions. Construction pushed back to 2009 and 2010.
- Green Port Initiative – Capital projects have moved out to 2009.
- Terminal 30 Public Access – Street vacation delayed by the City. Spending moved to future years.
- Terminal 18 North Apron – Project was completed in 2008 and is in process of being closed out.
- Cruise Tenant Improvement Allowance – 2008 spending has been moved to 2009 to accommodate the start-up of the new cruise terminal.
- P66 Baggage Corridor and Passenger Screening – Project was put on hold pending final definition and design of scope change. Spending was moved to 2009.
- Pier 91 Development (Carnitech) – Construction is complete. Project in final close-out phase.
- Terminal 91 Berth M – Construction is complete. Wrapping up claims with contractor. Project is expected to come in under budget due to limited need for use of contingency amounts.

III. SEAPORT DIVISION PERFORMANCE REPORT 12/31/08

- Seaport Security Round 6 Project – Federal Government has a hold on the grant funding, but working with the federal grant administrator to release the funding. Spending will occur later than anticipated in 2008 Capital Plan.
- Seaport Security Round 7 Project - Projects are still under design, and must be defined for presentation and approval by Commission. Memorandum of Agreements with sub recipients are being drafted and prepared for signature.

Note*: Changes between the 2008 Plan of Finance and the 2008 Approved Budget represent modifications in 2008 spending estimates made after determination of 2007 actual spending.

FINANCIAL SUMMARY

- Total Real Estate revenues were \$34.9 million, \$2.7 million favorable to budget primarily due to more event activity at Bell Harbor International Conference Center than budgeted.
- Expenses were \$38.8 million, (\$6.1) million unfavorable to budget primarily due to expensing of costs that had been capitalized in connection with a plan to develop North Bay.
- NOI before Depreciation was (\$3.9) million, (\$3.4) million unfavorable to budget.
 - Harbor Services was \$.4 million, \$.2 million favorable to budget.
 - Property Management and Leasing was \$3.2 million, \$3.4 million favorable to budget.
 - Development and Planning was (\$6.9) million, (\$6.5) million unfavorable to budget.
 - Environmental Grants and Reserve was (\$.6), (\$.5) million unfavorable to budget.
- Depreciation was \$10.0 million, (\$.3) million unfavorable to budget
- NOI after Depreciation was (\$14.0) million, (\$3.7) million unfavorable to budget.

A. BUSINESS EVENTS

- The sale of Pier 48 to the Washington Department of Transportation closed in August. The Port received \$10.9 million and is indemnified for any potential environmental cleanup costs. Sales price was \$10.9 million and resulted in a gain on sale of \$9.6 million which is recorded as non-operating revenue on the Real Estate Division's income statement.
- Fishermen's Terminal - Replacement of inner harbor docks (5-10) and utilities completed. Project close-out in progress and indicators are that the project will be approximately \$2.5 million under the originally authorized budget of \$22 million. Full use of moorage spaces effective end of June.
- Shilshole Bay Marina - Replacement of 22 docks and various landside improvements, including a new Marina Building and north end sailing center restroom/shower building completed. Project close-out in progress and indicators are that the project will come in slightly under the \$80 million budget. Full use of docks end of June. Anthony's Restaurant terminated lease negotiations. Site improvements in the area will be completed in 2009 pending Commission briefing; this work will be done within the approved budget.
- On June 3rd, the lease with Odyssey Maritime Discovery Center (ODMC) was terminated. The Port amended the Bell Harbor International Conference Center Management Agreement to include the former ODMC space through December 31, 2008.
- In August a Request for Proposal for a new lease, commencing in 2009, of the former Odyssey Maritime Discovery Center (ODMC) space was submitted. In September, a bid was received from Columbia Hospitality to utilize the space as an event center. After review, the bid was accepted and lease negotiations are currently in process with execution anticipated in the first quarter of 2009.
- Occupancy levels at Commercial Properties are at 97% which is above comparable statistics for the local market.
- Northbay T91 - Korry Electronics withdrew from ground lease negotiations in March. The development of the property as originally planned pursuant to the Harbor Development Strategy 21 was deemed no longer probable. A final decision was made to write-off all capital costs associated with the project in August 2008.

B. KEY INDICATORS

- Occupancy Rates: Commercial property at 97% occupancy, above target of 95% and above market average of 89%.
- FT/Marina Occupancy: Two of five exceed full year occupancy targets. Bell Harbor, Fishermen's Terminal and Shilshole Bay Marina below targets.
- Environmental Stewardship: No environmental/regulatory violations.
- High Performance Workplace: Occupational Injury Rate at 11.12 down from 12.25 in 2007.

IV. REAL ESTATE DIVISION PERFORMANCE REPORT 12/31/08

C. KEY INITIATIVES GOALS AND MEASURES

OBJECTIVES	2008
<p>ENSURE SEAPORT VITALITY MAXIMUM FINANCIAL PERFORMANCE: Achieve 2008 year-end NOI Before Depreciation and Environmental Grants and Reserve of \$(526,943)</p> <ul style="list-style-type: none"> • Development & Planning - \$(409,905) • Harbor Services - \$127,183 • Property Management and Leasing - \$(244,221) <p>SERVICE GROUPS (ORG EXPENSES)</p> <ul style="list-style-type: none"> • Maintenance - \$(10,334,800) • Facilities Management – \$(1,844,854) 	<ul style="list-style-type: none"> • NOI Before Depreciation and Environmental Grants and Reserve is (\$3,338K) – <u>unfavorable variance</u> of (\$2,811K). Variance reflects the expensing of North Bay capitalized costs. • NOI before depreciation is (\$6,954K) – <u>unfavorable variance</u> of (\$6,544K). Variance reflects the expensing of North Bay capitalized costs. • NOI before depreciation is \$381K – <u>favorable variance</u> of \$254K and in excess of 100% favorable to budget. • NOI before depreciation is \$3,235K – <u>favorable variance</u> of \$3,479K. • Net Org Expenses \$(11,353K) – <u>unfavorable variance</u> of (\$1,018K) and 9.9% unfavorable to budget. • Net Org Expenses \$(1,720K) – <u>favorable variance</u> of \$125K and 6.8% favorable to budget.
<p>INCREASE ASSET UTILITIZATION: Commercial: Maintain 95% occupancy rate</p> <ul style="list-style-type: none"> • <u>Moorage Occupancy - Annual Averages:</u> • SBM-93% • HIM-90% • BHM-84% • FT-90% • MIC-75% • Develop and Implement Asset Management Plans 	<ul style="list-style-type: none"> • Exceeds – Q4 occupancy is 97% • <u>Moorage Occupancy – 2008 Averages:</u> • SBM – below (91%; goal 93%) • HIM – above (91%; goal 90%) • BHM – below (79%; goal 84%) • FT - below (89%; goal 90%) • MIC - above (77%, goal 75%) • Maritime Industrial Center (MIC) asset condition assessment completed in Q2. Fishermen’s Terminal (FT) asset condition assessment is rescheduled for 2009.

OBJECTIVES	2008
<p>DEVELOP NEW BUSINESS AND ECONOMIC OPPORTUNITIES FOR THE REGION AND PORT BY:</p> <ul style="list-style-type: none"> Reducing vacancies in properties and maximizing land value. <p>ENHANCE PUBLIC UNDERSTANDING AND SUPPORT OF THE PORT'S ROLE IN THE REGION –</p> <ul style="list-style-type: none"> Conducting monthly speaking engagements in the community. Providing 25 students with internships, apprenticeships and training Purchase at least 15% of all goods and services from qualified small or disadvantaged businesses. 	<ul style="list-style-type: none"> 8 new leases and 25 renewals executed in 2008. 48 speaking engagements in 2008. 28 for the year (24 Maintenance, 4 Harbor Services). 21.4% of expense and 18.1% of capital. Combined 20.6%.
<p>WE WILL BE ON OUR WAY TO BEING THE GREENEST/CLEANEST AND MOST ENERGY EFFICIENT PORT IN THE US BY:</p> <ul style="list-style-type: none"> Incorporating sustainable asset management protocols. Incorporating sustainability metrics into all planning and development projects. Identifying opportunities for reduction in utility consumption across the Division. Reducing garbage tonnage by 10% and increase recyclables by 10%. 	<ul style="list-style-type: none"> Sustainability metrics consistently incorporated into planning and development projects. 2008 examples: FT Building C15 sewer line and T104 emergency water line repair projects. 2008 electrical consumption at Pier 69 was 1.6% lower than 2007 while average outside temperature was 6% colder. Maintenance implemented a new recycling awareness program which has reduced garbage tonnage by 58%
<p>BE A HIGH PERFORMANCE ORGANIZATION</p> <ul style="list-style-type: none"> All PREP's completed one (1) week prior to anniversary date Completing PREP plans with training, development, and diversity components Achieving a perfect safety score and zero accidents by providing our staff with necessary tools and training. 	<ul style="list-style-type: none"> 42% 1 week prior to anniversary date 26% by anniversary date 32% late 100% of PREPs that were completed by the end of 2008 had completed PREP plans with training, development and diversity components. OIR (Occupational Injury Rate): Marine Maintenance: 15.39; Harbor Services: 3.91; Property Management 0.0, Total Real Estate: 11.12. Comparable OIR in 2007 was 12.25

IV. REAL ESTATE DIVISION PERFORMANCE REPORT 12/31/08

D. OPERATING RESULTS -- IN THOUSANDS \$

<i>In \$ Thousands</i>	2007	2008	2008	2008 Bud Var	
	Actual	Actual	Budget	\$	%
Operating Revenue	32,196	34,905	31,290	3,615	12%
Environmental Grants	531	1	893	(892)	-100%
Total Revenue	32,727	34,906	32,183	2,723	8%
Direct Expenses	28,991	36,402	30,310	(6,092)	-20%
Environmental Reserve	8	604	950	346	36%
Allocations	860	1,841	1,506	(334)	-22%
Total Expense	29,859	38,847	32,767	(6,081)	-19%
NOI Before Depreciation	2,868	(3,941)	(584)	(3,357)	-575%
Depreciation	9,182	10,033	9,692	(342)	-4%
NOI After Depreciation	(6,314)	(13,974)	(10,275)	(3,699)	-36%
NOI Excl Envir Grants/Reserve*	2,345	(3,338)	(527)	(2,811)	-533%

NOTE:* NOI Excl Envir Grants/Reserve is Before Depreciation

REVENUES: FAVORABLE \$2,723K

Harbor Services: Unfavorable (\$88K)

- **Recreational Boating Unfavorable (\$219K)** primarily due to construction at SBM and longer lead time to move a thousand customers from temporary slips to permanent slips than assumed in budget.
- **Fishing and Commercial Favorable \$132K** due to increased demand and boat size.

Property Management and Leasing Favorable \$3,087K

- **Commercial Properties Favorable \$748K** primarily due to higher occupancy at T-102 (tenants assumed to vacate at end of lease terms did not) \$404K and higher than anticipated concessions rent, space rent, and Common Area Maintenance charges at Bell Street Pier 66 in the amount of \$236K.
- **Third Party Managed Properties Favorable \$2,339K** due favorable activity at Bell Harbor International Conference Center and World Trade Center Club.

Development and Planning: Favorable \$603K

- **Terminal 91 General Industrial Favorable \$566K** due to tenants budgeted in Seaport Division, but belonging in Real Estate Division \$253K and several new or renewal leases not anticipated in the budget in the amount of \$287K.
- **Pier 48 Favorable \$149K** due to later than planned sale of facility which has resulted in additional rent to the Port from tenants at the site. Property was sold in the third quarter.
- **Pier 2 Unfavorable (\$112K)** due to termination in late 2007 of a month to month lease at the site and adjustment of past rent for former trucking tenant at the site.

Environmental Grants: Unfavorable (\$892K)

- Environmental Grant revenue relating to Real Estate Division properties was lower than anticipated in the 2008 Budget.

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EXPENSES: UNFAVORABLE (\$6,081K). KEY VARIANCES:

- Capital to Expense unfavorable (\$7,274K) reflects the write-off of capital costs incurred to develop North Bay site. The accounts significantly impacted by the write-off includes Outside Services (\$6,085K) and Department Expense Charged to Capital Projects (\$1,187K).
- Salaries and Benefits for Real Estate groups favorable \$545K due to later than budgeted filling of open positions.
- Third Party Management Expense unfavorable (\$1,000K) due to higher activity than budgeted at Bell Harbor International Conference Center (\$1,088K) (more than offset by favorable revenue variance). Amount is partially offset by lower expenses at World Trade Center Club (even with higher revenue) and World Trade Center West building.
- Environmental Reserve favorable \$346K due to smaller impact to Real Estate Division of implementing GASB 49 than assumed in Budget.
- Outside Services (excluding Capital to Expense, Maintenance and Corporate) favorable \$461K due to postponement of expense projects including the Fishermen's Terminal Condition Assessment, piling replacement at Fishermen's Terminal and the Maritime Industrial Center, delay in processing new janitorial contract, and unused tenant improvement funds due to tenants in holdover status. Favorable amounts were partially offset by tenant improvements and broker fees related to new tenant at World Trade Center West. Budget assumed these new tenant related expenses would be recognized in 2007. The use of temporary personnel at Shilshole Bay Marina to cover vacant positions also partially offset the favorable variances in the other areas.
- Maintenance expenses direct and allocated unfavorable (\$385K) primarily due to unplanned expense work at Shilshole Bay Marina relating to managing warranty work and resolving electrical issues, cost overruns at Fishermen's Terminal relating to L&I lighting and other electrical work, various repairs at T91 Uplands including repair of a stairway on the Magnolia Bridge. In addition, Maintenance overhead was above budget due to increased vehicle fuel costs and retroactive pay related to new contracts for represented workers. Unfavorable variances were partially offset by the deferral of the Asset Condition Assessment at Fishermen's Terminal and a portion of the West Wall Building Window Replacement until 2009.
- Bad Debt expense favorable \$1,158K primarily due to assets received in settlement for unpaid rent in connection with Odyssey Maritime Discovery Center termination agreement.
- Corporate costs direct and allocated unfavorable (\$46K). Favorable variances in Engineering, Public Affairs, Port Construction Services and Police were more than offset by unfavorable variance from Corporate Contingency (audit related costs) and Information & Communication Technology.
- All other variances netted to a favorable variance of \$114K or less than 1% of Total Expenses Budgeted.

DEPRECIATION: UNFAVORABLE (\$342K):

- **Harbor Services Commercial: Unfavorable (\$77K)** less than 2% of budget.
- **Property Management and Leasing: Unfavorable (\$12K)** less than 1% of budget.
- **Development and Planning Unfavorable (\$254K)** due to delay in transferring Terminal 91 Seaport related assets to Seaport Orgs from Real Estate Orgs and unbudgeted depreciation for Pier 48 which was expected to be sold in first quarter 2008. Property was sold in August 2008.

CHANGE FROM 2007 ACTUAL

NOI Before Depreciation decreased by (\$6,809K) from 2007. Revenue increased by \$2,179K due to more revenue from Shilshole Bay Marina (construction ending) and increased activity at Bell Harbor International Conference Center. Amounts are partially offset by decrease of (\$530K) in Environmental Grant Revenue. Expenses increased by \$8,988K due to the expensing of capitalized development costs associated with the North Bay site, higher expenses at Bell Harbor International Conference Center (more activity), increased maintenance expenses and corporate allocations. Amounts are partially offset by Bad Debt expense recovered as a result of the termination agreement with the Odyssey Maritime Museum \$1,132K.

IV. REAL ESTATE DIVISION PERFORMANCE REPORT 12/31/08

E. CAPITAL SPENDING---IN THOUSANDS \$

REAL ESTATE DIVISION	2008				2008 Plan of Finance
	2008 Actual	Approved Budget	Variance to Budget	Actual as a % of Budget	
Eastside Rail Corridor	10,655	106,955	96,300	10%	103,000
Fishermen's Terminal Docks	5,404	6,992	1,588	77%	5,961
Shilshole Bay Marina	2,918	4,120	1,202	71%	3,794
Small Projects	693	2,293	1,600	30%	1,470
Fleet Replacement	373	592	219	63%	600
Central Waterfront Utility Upgrade	449	585	136	77%	452
FT C15 Bldg Sewer Line Upgrade	349	0	(349)	NA	0
Tenant Improvement - Capital	0	660	660	0%	660
Marina Management System	202	305	103	66%	241
Terminal 91/North Bay	0	1,500	1,500	0%	1,500
Terminal 102 HVAC Renewal/Replace	91	257	166	35%	0
Bell St. Garage Safety Improvements	46	569	523	8%	460
Others	16	500	484	3%	500
Total Real Estate	21,196	125,328	104,132	17%	118,138

Comments on Key Projects:

Real Estate spent 17% of the approved capital budget for the year.

Projects with significant changes in spending were:

- Eastside Rail Corridor – Credit market disruption has delayed closing to first quarter of 2009.
- Fishermen's Terminal Docks 5-10 Project – Dock construction complete. Project close out in progress. Expected to be approximately \$2.5 million under budget.
- Shilshole Bay Marina – Construction is generally completed with the exception of the esplanade lighting which will be completed in 2009. The contract is being closed out and is expected to come in within the original \$80 million budget. The build out of the restaurant is no longer planned and pending Commission approval in 2009, temporary site improvements will be made in this area thus completing the capital improvements at Shilshole by the end of 2009. This remaining work is also included in the \$80 million budget.
- Small Projects – Several budgeted projects will move into 2009.
- Fleet Replacement – Purchase of a sweeper truck expected in 2008 has been moved out to 2009.
- Central Waterfront Utility Upgrade – Project was delayed due to change in contractors.
- C15 Sewer Line Upgrade Project – Project was a Business Plan Prospective project in the 2008 Capital Plan. Approved by Commission on 1/15/08 for \$600K. Project is under construction. Some spending has moved to 2009 due to change order negotiations with contractor.
- Tenant Improvements Capital – No tenant improvements in 2009 qualified to be capitalized.
- Terminal 91 North Bay - Project is cancelled, and all charges have been expensed.
- Terminal 102 HVAC Renewal/Replace - Construction was delayed due to lease issues. Property Manager is working out issues with the tenant. Spending was moved to 2009.
- Bell St. Garage Safety Improvements – Project will start later than originally assumed due to delay in negotiations with designer. Contract is now executed. Plan to go to Commission for spending authorization in the first quarter of 2009.

Note*: Changes between the 2008 Plan of Finance and the 2008 Approved Budget represent modifications in 2008 spending estimates made after determination of 2007 actual spending.

A. BUSINESS EVENTS

- **Risk Management:**
 - Continued to provide divisions with services in claims management, contractual risk analysis, risk assessment, risk financing and insurance purchasing.
- **Health & Safety:**
 - A Wellness Incentive program was launched in February 2008. Employees with Port health care insurance must achieve 1000 wellness points to offset any premium sharing in 2009. To date, 1162 employees have completed the health assessment and 1024 employees have achieved the 1000 point goal.
- **Public Affairs:**
 - Audit Response constituency communication and coordination of public hearings.
 - Third Runway completed. Positive media coverage was garnered throughout the year
 - Eastside Rail Corridor communications and coordination of public meetings held in Snohomish, Woodinville, Bellevue, Kirkland and Renton.
 - Welcome/media event for Nobel Peace Prize recipient and former South Korean President Kim Dae Jung, who introduced Sunshine Policy with North Korea; managed Korean American media.
 - Held two 2008 Annual Community Meetings: Harbor tour and Bus tour on the new Third Runway
- **Economic, Business & Trade Development (EBTD):**
 - EBTD was the lead organizer of activities surrounding the visit of a delegation from the Port of Dalian led by Chairman Yuan Fuxiu on April 16-17. The visit coincided with the one year anniversary of the signing of our friendship port agreement. Activities included a briefing on the Port of Seattle, a terminal tour, and a dinner.
 - Hosted an India Delegation from Gujarat, including the Gujarat city government, Maritime Board, the Port of Gujarat, and representatives from other logistics/maritime related industries.
- **Human Resources and Development:**
 - The HR-18 Standards of Performance and Conduct, Corrective Action and Discipline procedure was revised to incorporate reference to the new fraud policy (EX-18, Fraud Awareness and Prevention, Loss of Public Funds and Assets) and to list fraud as a potential case of gross misconduct which could result in severe discipline, up to termination of employment.
- **Information & Communication Technology (ICT):**
 - New Airport Parking Management System - ICT designed and deployed a complex system of cameras, signs, and highly sophisticated software to direct customers to areas in the parking garage with available parking. This new system has improved overall customer satisfaction dramatically. Since its inception, this system has become nationally recognized because of the unique utilization of video analytic technology. This accomplishment sustains airport vitality, public understanding, and regional transportation.
 - New Police and Fire Dispatch System - This new system provides vastly improved dispatch capability for emergency responders. The new system improves interfaces to fire alarms, surveillance systems, access control, map data, wireless devices, and records management. It also provides Port police and firemen access to State, National, and Regional databases. This effort sustains airport and seaport vitality, transportation security, and a high-performance organization.
- **Finance & Budget:**
 - **Budget**
 - Finance & Budget was awarded the prestigious "Distinguished Budget Presentation Award" from the Government Finance Officers Association of the United States and Canada (GFOA), for the 2008 Budget.
 - Implemented the new budget system and provided budget user training.
 - Completed all the budget reviews and documents as scheduled.
 - Filed the 2009 statutory budget approved by the commission with King County Council and Assessor in November as required by law.
 - Monitored corporate operating performance and commitment control budgets.
 - Identified cost savings and revised 2008 budget to offset unplanned Performance Audit response costs.

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Finance

- Refunded 2003 auction rate bonds into variable rate demand bonds backed by a direct pay letter of credit.
- Annual update with rating agencies.
- Completed annual disclosure report and submitted material event notices regarding bond insurer downgrades.

Treasury

- Replaced forward delivery investment agreement to T-18 reserve fund to improve the quality of delivered investments.
- Investment Portfolio earned 4.04% compared to benchmark yield of 2.01%.

Strategic Planning

- Continued developing the work plan for the Century Agenda long-range Port-wide strategic plan update, to be completed in time for the 2011 Port of Seattle Centennial.

• Office of Social Responsibility:

- Ship to Shelter donation program launched. Program developed and coordinated in partnership with Holland America Line, Northwest Harvest, Customs, and terminal operator and Public Affairs Department.

• Regional Transportation:

- The Viaduct/Seawall Collaborative Process completed a year of study, and Port held two Working Waterfront Forums to allow freight and waterfront interests an area to share their opinions; port staff provided Building Block and Scenario analysis.
- The Joint Commissions of the Ports of Seattle and Tacoma met to review and discuss transportation infrastructure issues.

• Police Department:

- Police Department continued close cooperation with the U.S. Department of Homeland Security (including the U.S. Coast Guard, the Transportation Security Administration, and other Federal agencies), as well as regional, State, County, and municipal agencies. This cooperation is exemplified by the department's participation in various task forces, regional teams, committee memberships, and Mutual Aid relationships.

B. GOALS AND STRATEGIC ISSUES PROGRESS

• Executive:

- Audit Response Milestone Report submitted to the State Auditor's Office addressing his 51 recommendations for improvement and corrective actions.
- Organizational Changes – Completed implementation of organizational changes outlined in 2007.
- Strategic Planning – Conducted transparent strategic planning processes with input from key stakeholders.
- Be a High Performance Organization.
- Implement "Green Initiative" at Seaport and Airport.

• Commission:

- Environmental Leadership to front and center of entire organization.

• Legal:

- To provide public record administration.
- To provide Port-wide classes regarding relevant legal issues.

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- **Risk Management:**
 - Maintain cost effective property and liability insurance for the Port.
 - Continue to search for alternatives to traditional earthquake insurance for funding of property damage following a major earthquake.
 - Manage the Port's Driver Safety Program which includes managing drivers with commercial driver licenses including and oversight of drug testing for these drivers.
- **Health & Safety:**
 - Collaborate on safe work practices and promote a healthy work force.
- **Public Affairs:**
 - Communicated the Port's Message:
 - Position and response on State Performance Audit to customers and community.
 - Port's priorities and importance of freight through Working Waterfront Forum aimed at Viaduct issues and freight mobility.
 - Enhance public access to Port information through a variety of communication vehicles:
 - E-news bulletins are reaching more than 9,000 subscribers, increased by 30% since March '08.
 - Produced our first electronic annual report and electronic holiday card.
 - Commission meetings are streamed live on our intranet and Internet, the audio is posted on the Web site immediately after meetings, and video files are chaptered and archived. The meeting tapes are also shown on King County TV each Sunday.
 - Worked to improve the Port's transparency with the Audit Task Group; helped develop progress reports and summaries posted on an Accountability site for the public, linked from Compass for employees.
- **External Affairs:**
 - Support efforts to acquire and plan for use of BNSF Eastside Rail Corridor: Numerous meetings in community with citizens and elected leaders about development options for corridor; draft public process program.
 - Support Port transportation strategies including replacement of Alaskan Way Viaduct, East Marginal Way grade separation and other transportation requirements.
- **Economic, Business & Trade Development:**
 - Assisted Aviation Division with their work to set up two new direct Seattle – China services: Hainan Airlines and Great Wall All-Cargo Airlines.
 - Partnered with the Pacific Market Center (PMC) in an effort to establish a Chinese pavilion at the January 2009 Seattle Gift and Home Accessories show.
- **Engineering:**
 - Provide site information, design services, construction services, contract administration, survey, and drafting for new developments
 - Update and maintain Engineering Standards, Master Specification, QA/QC, and Life cycle analysis.
 - Maintain leadership role in regards to environmental construction compliance, i.e. erosion control and clean water management; Green Building and LEED certified buildings, Sustainable Asset Management initiative and other similar programs
- **Port Construction Services:**
 - Continue to manage the Port's small works program in a manner that reflects the goals, values and principles of the Port by providing a quick cost effective means to accomplish small projects.

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- **Human Resources & Development:**
 - Implement a new Learning Management System (LMS). The LMS launched in September was on time and nearly trouble free and continued implementation of it has supported employee use and skill with it.
 - Pilot a Military Veterans Fellow Program. Extensive outreach resulted in six fellows now on board and successfully participating in the program.
 - The Mayo Clinic's "Embody Health" Program (in partnership with Health & Safety). The Wellness Rewards Program was launched February 14. Numerous information sessions were held around the Port during January, and the points system was fine-tuned based on employee input. On-site biometric testing was provided, along with numerous classes and brown-bag sessions. At the end of the program on October 31, only 42 employees had not achieved their 1,000 points. Forms authorizing payroll deduction on a pretax basis for 10% of their premiums were collected from each of these employees.
- **Labor Relations:**
 - Worked with managers to negotiate contract changes directly related to the vitality of the Airport and Seaport. Contract negotiations in 2008 are near completion.
 - Instrumental in bringing to the table both the Port and Union Officials on economic issues affecting the Port including the Rental Car Facilities, and the STIA Parking Garage.
 - Continued with its training sessions to ensure that the Port overall understands the labor contract process.
- **Information & Communication Technology (ICT):**
 - Services focused on managing the Port's enterprise Information and Communication Technology systems, services, and resources in the most cost effective manner.
- **Finance & Budget:**
 - Budget**
 - Wrap up the economic impact study by February 2009.
 - Continued to identify potential budget savings.
 - Continued to refine the budget system.
 - Applied for another Distinguished Budget Presentation Award from Government Finance Officers Association.
 - Finance**
 - Developed Draft Plan of Finance in conjunction with the 2009 Budget.
 - Developed funding plan for replacement of XL capital surety and MBIA surety (if needed) in Intermediate Lien reserve fund.
 - Developed alternatives for rental car funding – on hold due to market conditions.
 - Began process for G.O. bond issue – on hold due to market conditions.
 - Strategic Planning**
 - Conducted research in key emerging issue areas, such as sustainability, climate change, asset management, etc.
 - Delivered presentations on strategic planning issues to outside groups, e.g. Municipal League.
 - Supported internal strategy coordination teams such as regional transportation, security, ICT and environmental.
- **Accounting and Financial Reporting:**
 - The Port and its 2007 Comprehensive Annual Financial Report (CAFR), prepared by the Accounting & Financial Reporting (AFR) department, received the "Certificate of Achievement for Excellence in Financial Reporting" from the Government Finance Officers Association (GFOA) of the United States and Canada. Along with this prestigious certification, the GFOA "Award of Financial Reporting Achievement" was also given to the AFR Department. This is the third consecutive year for receiving the certification and award. The Port's 2008 CAFR will be completed and transmitted to the GFOA for consideration of receiving another award.
 - The Port received a clean, unqualified independent Certified Public Accountant (CPA) audit opinion on its 2007 financial statements.
 - The Port received clean 2007 Single Audit and PFC audits, resulting in no Federal grants/FAA regulatory compliance or questioned cost findings.

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- **Office of Social Responsibility:**
 - Focus on the Small Business contracting area as a primary focus of its business plan.
 - OSR's and Small Business work program is categorized as: Policy Development, Program Development, Outreach, and Contracting Accomplishments.
- **Regional Transportation:**
 - Ensure access to existing facilities
 - Ensure access to future facilities
 - Enhance regional transportation and freight mobility
- **Police Department:**
 - The Department continues to participate in regional task forces, to include the FBI Joint Terrorism Task Force, the DEA Task Force, Immigrations and Customs Enforcement (ICE) task force, and the Valley Special Response Team. Participation in these cooperative working relationships provides additional opportunities for our officers to enhance their investigative skill levels and forges stronger working relationships with other local, State, and Federal agencies.
 - The Department is constantly on the lookout for grant opportunities and other funding sources to help finance its wide variety of missions. This includes our continued receipt of Homeland Security grants in support of the Explosives Detection K-9 Program and Airport Security Program, as well as Homeland Security grants for equipment. The new police boat was purchased through a marine security grant, and has proven to be an effective asset for harbor security.

C. KEY INDICATORS

- **Executive:**
 - State Auditor's Office (SAO) Audit
 - Changes have been made to Port practices so that they are reflective of legislative changes and the auditor's recommendations.
 - Submitted a report to the SAO office of the actions we have taken to date addressing their recommendations for improvement.
 - Implemented the new Ethics and Fraud Awareness & Prevention policies and established a Fraud Hotline.
 - The Port's Internal Audit Manager now reports to the Commission and CEO.
 - Organizational Changes
 - Hired a Chief Procurement Officer and established an independent Central Procurement Office.
 - Centralized the Port's development and construction activities within the new Capital Development Division.
 - The Real Estate Division was launched in January and has reviewed and assessed all Port properties.
 - The new Office of Social Responsibility continues the process of developing and implementing new programs and initiatives.
 - Strategic Planning
 - Key stakeholder advisory groups were formed and met at various times throughout the year.
 - High Performance Organization
 - Police department implemented LEMAP recommendations to improve their work culture.
 - Veterans Fellowship program has been implemented.
 - Green Initiative
 - Briefed Commissioners on Ports environmental programs in January.
 - Continue to progress on employee engagement and performance metrics.
 - Eastside Rail Corridor
 - Acquisition is nearly finalized.

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- **Legal:**
 - Responses to requests for public records are within the statutory time limits and a reasonable response time has been provided for production of documents. Feedback from the public is evidence that this is done successfully.
 - Port employees continue to attend classes and gain knowledge regarding a variety of legal issues as well as record management issues.
- **Risk Management:**
 - Claims Management continues to achieve a high rate of recovery for claim costs for property damage from liable parties when a liable party can be identified. Claims Management recovered roughly \$60,000 of property damage costs out of a total of \$91,000.
 - Property insurance renewal on July 1, 2008 resulted in a 4% decrease in premium even though property values increased by 15%.
 - Risk management procured a builder risk policy for the rental car facility project at a 20% savings compared to the cost the contractor proposed for the same coverage. The policy will remain in effect during the temporary suspension of work on the facility in 2009.
- **Health & Safety:**
 - Annual Safety Evaluation on leading indicators and action plans for organizations.
- **Public Affairs:**
 - Industry and customer support demonstrated through public testimony at Commission meetings on topics such as Performance, Northwest Ports Clean Air Strategy, and Viaduct.
 - Positive coverage of the Port of Seattle's environmental initiatives in trade publications and local media.
 - Received ACI-NA's award for the Hainan Airlines launch event.
 - Received positive local, regional, national, and international press coverage of the Third Runway grand opening.
 - Annual Community Meetings: achieved record attendance of more than 240 community members
 - Sea-Air School, 2008 Seaport and 2007-2008 Airport Programs reached almost 10,000 students, teachers and parents. Students participating in the Sea-Air School Airport and Seaport Programs came from 34 cities and 116 schools.
 - Sea-Air School Trade Classes – record number of 2445 attended the International Trade Classes in the Commission Chambers, 13% more than 2007.
 - Lunch Bus Tours: 2007 Attendance: 117; 2008 Attendance: 170
 - Port 101: 2007 Attendance: 407; 2008 Attendance: 574
- **Government Relations:**
 - Continued support by King County, Snohomish County and suburban jurisdictions for POS acquisition and planning for Eastside Rail Corridor.
 - Tours and Briefings as requested for Federal, State and Local Elected Officials and Staff.
 - Continued Promotion of Joint Marketing, Security, and Planning Efforts with the Port of Tacoma.
- **Economic, Business & Trade Development:**
 - Advanced Port of Seattle interests in regional economic development through pursuit of "Prosperity Partnership" action strategies in logistics and international trade (China trade and logistics strategy), life sciences (UK and French initiatives) and aerospace (initiating efforts with various regional and state collaborators to assess the future development of Boeing aircraft, and to begin developing strategies to enhance the state's competitive ability to support their R&D and manufacture in Washington).

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- **Engineering:**

- Engineering prepared analysis and provided briefings on performance measures to the operating divisions and executive group. Construction costs and industry trends were the primary focus of 2008. In addition, the Engineering department is supporting the Port wide performance audit efforts (TKW and SAO) of capital programs as requested by the Commission.

- **Port Construction Services (PCS):**

- In 2008, PCS managed a total cost of 16.2 million dollars in spending. Contractor payments were 33.7 percent, PCS crew wages were 18.8 percent, material and equipment costs were 14.1 percent, construction support costs were 19.5 percent and indirect costs were 13.9 percent.

- **Human Resources & Development:**

- In 2008, approximately 755 employees participated in Learning Calendar classes. Additionally, 1,640 employees completed the Preventing Workplace Harassment refreshers.
- Opened 324 employment requisitions in 2008 as compared to 329 in 2007.
- Processed 9,854 employment applications in 2008 as compared to 7,983 in 2007.
- Participated in 26 career fairs including 9 military fairs.
- Approximately 234 job evaluations were finalized in 2008, including the following:

Project Job Evaluations	# of Jobs
Administrative Professionals	95
Project Management Group	45
Seaport Operations	22
Noise Programs	5
Non-project Job Evaluations	67

Project evaluations, in general take about 50% longer than individual evaluations as a result of the additional project management time and increased need to review multiple jobs at the same time. The Administrative Professionals and the Project Management Group Refresh Projects included developing new matrices, which added additional time to this project.

- **Labor Relations:**

- Contract Negotiation: Staff members serve as the chief negotiators for the Port in all labor contract negotiations. Our department coordinates the market research and proposal development and ensures that Port of Seattle collective bargaining agreements are in line with those of comparable jurisdictions.
- Dispute Resolution: Works closely with managers and union representatives to resolve many issues outside of the grievance process.

- **Information & Communication Technology (ICT):**

- Continued virtualization and data center consolidation strategies have offset over \$2 million in new hardware and hardware refresh costs to date.
- In 2008, ICT completed 36 technology projects that combined were 11.6% under budget. ICT projects resulted in over \$1.3M in annual savings for the Port and our airline partners. In addition, completion of two airport projects resulted in a reduction of Green House Gas (GHG) emissions by 8,500 tons per year for our airline partners.
- In 2008, ICT proved to be a National technology leader and an asset to Seattle's Port through projects such as: Floor Count, Gate Tagging, SMS Text Messaging, and the Aviation Operations Dashboard
- In 2008, ICT filtered and blocked 127.2 million spam emails (97.2% of total incoming emails). Also, our anti-virus systems found and removed approximately 33 thousand viruses.

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- In 2008, ICT began to track customer satisfaction by conducting surveys. In response to the question: "How would you rate your overall experience with the ICT department, on this project? (1=poor, 5=excellent)," the average response was 4.0.
- To be responsive to our business partners and to decrease ICT expenses we replaced the majority of our contract employees with full time employees.
- In 2008, ICT continued to save money through efficient financial and contract management, ICT also began to generate a recurring revenue stream.
- ICT continued to help the Port increase mobility and productivity; to date, 910 employees have laptops which enable them to work from any location. This was crucial in 2008, when during the December snowstorm the Port had 154 Virtual Private Network users (10 times our average) working from home.

- **Finance & Budget:**

- Budget**

- Provided adequate budget and MIS training for budget support staff.
 - Made the necessary budget adjustments to meet the commitment control budgets.
 - Received Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada.

- **Regional Transportation:**

- Two FAST Corridor projects celebrated ground breakings: SR519 Phase 2 in the North Duwamish (10/23) and the 228th Grade Separation in Kent (10/6). The Port increased its financial partnership in SR519, contributing \$5.5M, and anticipates participating in 228th subject to Commission authorization.
 - The Viaduct/Seawall Collaborative Process completed a year of study, and the Port Commission sent a letter requesting the Bored Tunnel be retained for further study when a Surface Transit and Elevated Viaduct were the only two projects recommended to move forward. Eventually in January 2009, this recommendation was adopted by the Governor, Mayor and County Executive.

- **Police:**

- Jan – Dec 2008 Calls For Service – 67,698
Jan – Dec 2007 Calls For Service – 71,391
 - July – Dec 2008 Arrests – 1,115 (does not include warrant arrests)
Jan – Dec 2007 Arrests – 1,161 (does not include warrant arrests)

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D. OPERATING RESULTS---- NET OPERATING EXPENSE (in THOUSANDS \$) [REPORTED BY ORG]

In \$ Thousands	2007 YTD		2008 YTD		2008 Bud Var.	
	Actual	Actual	Budget	\$	%	
Total Revenues	2,223	1,735	1,258	477	37.9%	
Executive	2,293	2,333	2,633	300	11.4%	
Commission	577	899	791	(109)	-13.8%	
Legal	2,969	3,012	2,766	(246)	-8.9%	
Risk Services	2,572	2,768	3,107	339	10.9%	
Health & Safety Services	995	996	1,059	63	5.9%	
Public Affairs	3,961	4,356	4,681	325	6.9%	
External Affairs	821	1,097	1,460	363	24.8%	
Economic & Trade Development	1,524	1,645	2,174	530	24.4%	
Engineering	1,188	1,253	1,355	101	7.5%	
Port Construction Services	2,268	1,965	1,500	(465)	-31.0%	
Human Resources & Development	3,644	3,973	4,432	458	10.3%	
Labor Relations	579	677	731	54	7.4%	
Information & Communications Technology	13,346	14,577	15,010	433	2.9%	
Finance & Budget	1,456	1,667	1,821	154	8.5%	
Accounting & Financial Reporting	6,174	5,863	7,189	1,326	18.4%	
Office of Social Responsibility	200	1,246	1,738	492	28.3%	
Consulting Services	3	-	17	17	100.0%	
Regional Transportation	291	402	522	120	23.0%	
Police	18,607	19,484	20,474	990	4.8%	
Industrial Development Corporation	-	11	-	(11)	0.0%	
Contingency	6,788	4,200	750	(3,450)	-460.0%	
Total Expenses	70,257	72,425	74,210	1,785	2.4%	

Corporate Professional and Technical Services revenues for the twelve months of 2008 were \$477 thousand favorable compared to the approved budget due to higher Police operating grants.

Corporate Professional and Technical Services expense performance for the year-ended 2008 was \$72.4 million, \$1.8 million or 2.4% favorable compared to the approved budget and \$2.2 million or 3.1% higher than 2007. This favorable variance is primarily due to several position vacancies during the year and other cost savings realized in several departments.

The favorable variance of \$300 thousand in **Executive** is due to cost savings realized in Salaries and Benefits for the Chief Administrative Officer position being vacant since the earlier part of the year and costs savings in Travel & Other Employee Expenses due to decrease in executive travel.

Commission's unfavorable variance of 109K is due to higher Salaries & Benefits, Equipment Expense, Office Supplies and Telecommunication Expenses.

The \$246 thousand unfavorable variance in **Legal** is due to higher Salaries and Benefits and increased activity costs for Outside Legal Services.

The favorable variance of \$339 thousand in **Risk Services** is due to cost savings realized for both property and liability insurance renewal.

The favorable variance of \$63 thousand in **Health & Safety** is due to cost savings in Outside Services and Travel & Other Employee Expenses.

Public Affairs' favorable variance of \$325 thousand is due primarily to lower salary costs from several positions being vacant during the year and under-spending in Advertising Expense.

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External Affairs' favorable variance of \$363 thousand is due to costs savings in Salaries and Benefits for two vacant positions since the early part of year, and cost savings in Travel & Other Employee Expenses due to reduced travel because of the vacant Federal Government Manager's position.

Economic & Trade Development's favorable variance of \$530 thousand is due to under-spending in Outside Services for not being able to secure a consultant contract, and savings in Travel & Other Employee Expenses due to cancellation of several trips.

Engineering Services' favorable variance of \$101 thousand is due to reduced or deferred costs in order to do work on the performance audit and additional expense projects that were not included in the budget.

Port Construction Services' unfavorable variance of \$465K is due to working on the performance audit, performing additional expense work for the divisions that was not included in the budget and doing less work on capital projects than originally anticipated.

Human Resources and Development incurred a favorable variance of \$458 thousand due to costs savings in Salaries and Benefits caused by vacancies during the year and cost savings in Outside Services.

Labor Relations incurred a favorable variance of \$54 thousand due primarily to costs savings in Salaries and Benefits due to several vacancies during the year and in Travel & Other Employee Expenses.

Information and Communication Technology incurred a favorable variance of \$433 thousand due primarily to costs savings in Salaries and Benefits due to several vacancies during the year and consolidating and terminating software license maintenance agreements.

The favorable variance of \$154 thousand in **Finance & Budget** is due to savings realized due to delayed in filling the Corporate Budget Manager's position and other costs savings in the Travel and Other Employee Expenses category due to cancellation of some travel plans.

Accounting and Financial Reporting year-end performance resulted in a favorable variance of \$1.3 million compared to the approved budget due primarily to cost savings in Salaries and Benefits as a result of several unfilled and vacant positions during the year, and in Outside Services, Travel and Other Employee Expenses.

Office of Social Responsibility year-end performance resulted in a favorable variance of \$492 thousand compared to the approved budget due primarily to cost savings in Salaries and Benefits as a result of several unfilled positions during the year, in Outside Services and Trade Business & Community.

The favorable variance of \$17 thousand in **Consulting Services** is based on the Port's decision not to pursue legislative authority in this session.

The favorable variance of \$120 thousand in **Regional Transportation** is due to capitalizing some of the projects that would have been expensed and using in house staff on other projects as opposed to consultants.

The favorable variance of \$990 thousand in **Police** is due to cost savings in Salaries and Benefits due to several vacant positions.

Industrial Development Corporation unfavorable variance of \$11K is due to charges incurred for the IDC/ET Fellowship Program.

Contingency is unfavorable by \$3.5M, primarily due to the Performance Audit and the Special Investigation costs.

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DIRECT CHARGES

<i>\$ in Thousands</i>	2007	2008		2008 Bud Var	
	Actual	Actual	Budget	\$	%
Total	1,556	9,341	10,025	(684)	-6.8%

Corporate Direct Charges for the year-ended 2008 were \$684 thousand or 6.8% below the approved budget.

E. CAPITAL SPENDING RESULTS

	(\$ Millions)
<u>Annual Results:</u>	
2008 Plan of Finance	\$ 14.84
2008 Approved Budget	\$ 21.99
2008 Actuals	\$ 8.12
Variance (Budget vs Actuals)	\$ 13.87

VI. DEFINITION OF TERMS

Airline Cost Per Enplanement (CPE): Airline cost per enplanement reflects the overall cost to the airlines for each passenger enplaned. The CPE measures the total costs borne by the airlines divided by the number of enplaned passengers (roughly half of the total passengers).

Basic Airlines Landing Fee (BALA): Revenues derived from airlines that have signed the basic airline lease agreement.

Capital Budget and Draft Plan of Finance: The Capital Budget is a detailed plan of proposed expenditures arising from the acquisition or improvement of fixed assets and the means of financing them. The Draft Plan of Finance document is prepared and presented to the Port Commission concurrently with the budget.

Income from Operations: Represents the net income to the Port derived from revenues less direct operating and maintenance expenses but prior to Corporate Administrative expenses.

Inter-Division Charges: Charges from one division to another.

Net Operating Income (NOI): Income from Operations after administrative expenses, but before non-operating revenues and expenses.

Net Non-Operating Income: The difference between Non-Operating Revenues (excluding the Ad Valorem Taxes) and Non-Operating Expenses.

Non-Airline Revenues: Include concession, parking and other fees not charged directly to the airlines. These revenues help offset the residual landing fee requirement.

Operating and Maintenance Expenses: Costs or charges that arise from the normal operation of business.

Operating Revenues: Gross earnings or billings from operations that results from facilities and/or equipment leased or operated.

Performance or Operating Budget: A financial plan that incorporates an estimate of proposed revenues and expenses for a given period.