PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA | **Item No.** 6i

Date of Meeting August 24, 2010

DATE: August 19, 2010

TO: Port of Seattle Commissioners

FROM: Commissioner Tom Albro

SUBJECT: Evaluation of Performance for the Chief Executive Officer for CY 2009

ACTION REQUESTED: Request Commission approval of the performance rating of "Outstanding" for the Chief Executive Officer for CY2009.

BACKGROUND:

According to the Commission's Bylaws and the 2009 Salary and Benefits Resolution (Resolution No. 3609), the Commission is responsible for reviewing the performance evaluation of the Chief Executive Officer (CEO) Tay Yoshitani in public session. This performance review is based on the CEO's 2009 Goals and Objectives, which were approved in public session on August 4, 2009. Commissioners discussed a framework for reviewing the CEO performance at the September 22, 2009, public session. During this discussion, several Commissioners said Mr. Yoshitani's performance was outstanding. This year, the Commissioners met in executive session on April 6, 2010, May 11, 2010, and July 13, 2010, to discuss the CEO's performance evaluation.

Based on those discussions, the Commission is in agreement that CEO Yoshitani's performance in CY 2009 merits an "Outstanding" rating. In a year in which the world was mired in the most severe economic and financial crisis since the Great Depression, the CEO demonstrated extraordinary leadership in achieving the policy goals, division objectives and tasks laid out in the CEO's Goals and Objectives document. These achievements also reflect the Port's fundamental values of economic stability and growth, environmental stewardship, financial well-being and social responsibility. The Commission also notes that this is the first time the CEO has received an official evaluation in public session from the Commission since May 13, 2008.

DISCUSSION OF PERFORMANCE:

2009 will certainly be remembered as one of the most difficult financial years in the Port's ninety-nine year history. The year opened in the depths of a greatest economic crisis in eighty years, and it soon became apparent that the Port divisions' already lowered business projections for 2009 made in the fall of 2008 were too optimistic. As the year began, the global recession resulted in a sharp drop in international trade, and economic forecasts were dire. Cargo throughput dropped precipitously at the Seaport, and passenger traffic and revenue was down at the airport.

Early in the year, Mr. Yoshitani moved to stabilize the Port's financial situation on a number of fronts. First, he moved to cut costs. Employee furloughs were begun in February, and a Voluntary Separation Program was designed to encourage retirements. Discretionary spending, which had already been cut, was slashed again. Ultimately, the Port's staffing was reduced by 6 percent, and operating expenses were reduced by $32.2 million, or 11.6 percent, from the initial budget targets.

Despite the grim outlook, Mr. Yoshitani moved forward to achieve the ambitious Goals and Objectives in his performance plan as directed by the Commission.

Financially, the Port weathered 2009 remarkably well because of the proactive steps Mr. Yoshitani immediately took across the board to diminish the economic and business impacts of the recession. Total operating expenses were $32.3 million, or 11.6 percent, below budget. This included $16 million in budget savings initiated during the first half of the year. Although operating income before depreciation (net operating income or NOI) was $203.4 million, or 2.5 percent, lower than the budgeted amount of $208.5 million, the fact that NOI did not decline more dramatically was a remarkable achievement. Non-aeronautical net operating income (NOI) was $81.1 million, or 5.4 million below budget. On the positive side, airline cost per enplanement was reduced one dollar below the forecast. The Seaport's NOI exceeded the target of $45.7 million by $4.4 million to reach $50.1 million. Given the overall economic climate and decline in the Port's lines of business, these financial results are exceptional. Mr. Yoshitani also presented a budget for 2010 that removed the Seaport from reliance on the tax levy for capital expenditures three years before the deadline of 2013 specified by the CEO's Goals and Objectives.

The Port's stable credit ratings in 2009 were another measure of the Port's financial strength during a year when some other airports and seaports did not fare as well. Despite abysmal business conditions for the Seaport and the Airport, the Port maintained its strong credit ratings, which reflected Mr. Yoshitani's prudent financial and operational management practices.

In addition to the intense focus on the Port's financial health, Mr. Yoshitani continued to implement the Port's reform agenda. By mid-2009, the vast majority of the December 2007 recommendations by State Auditor's Office (SAO) had been implemented. The 2009 SAO performance audit proceeded smoothly. The CEO's new organizational structure (the Capital Development Division, including a Central Procurement Office; the Real Estate Division; the External Affairs Department; and the Office of Social Responsibility) was well established by early 2009 and bearing fruit. A comprehensive review of the Port's ethics program was completed in December 2009 with the help of outside counsel; a new Code of Conduct was drafted; and a new Workplace Responsibility Program for all employees was launched in 2010.

Throughout the year, Mr. Yoshitani continued quietly to cultivate partners in the acquisition of the Eastside Rail Corridor. On November 6, 2009, an inter-agency partnership to preserve this unique asset in public ownership was announced. The Port purchased the Corridor for $81.5 million on December 21, 2009, after two years of patient negotiations with both BNSF and the other agencies. By taking this long-term approach to sharing the cost of purchasing the Corridor with other government agencies, Mr. Yoshitani reduced the Port's investment from $101 million to less than $9 million when the various property transactions have been completed. (The Port has already begun to recoup its investment with the sale of the "Redmond Spur" for $10 million on June 22, 2010.) Observers have commended the Port for its willingness to preserve this transportation corridor for the greater good of King County residents.

A number of major infrastructure initiatives were undertaken or completed despite the budget cutbacks. Terminal 30 was rededicated to container service, and Smith Cove Cruise Terminal was opened. A new funding plan for the issuance of bonds for the Rental Car Project, a casualty of the 2008 financial meltdown and one of the region's largest ongoing construction projects in 2009, was developed and approved by the Commission in May, and the project was re-started successfully in July. It provided several hundred construction jobs during the darkest days of the downturn. Runway 16L-34R was reconstructed on time and under budget. The Commission authorized additional funding for the East Marginal Way Grade Separation Project in March 2009, and construction began in January 2010. As discussions continued about the bored tunnel, the CEO effectively advocated for maritime interests and a working waterfront.

The CEO was instrumental in recruiting three new shipping lines to call at the Port. The addition of China Shipping, CMA-CGM and Maersk in 2009 allowed the Port to recover container volumes faster than any other port in the United States beginning in August 2009 and turn in a better year-end performance than any other port on the West Coast. The Port's "fee free" approach helped to retain the shipper base during the downturn, which has also led to increased volumes flowing through the Seaport as throughput has recovered.

Mr. Yoshitani furthered the Port's environmental initiatives in 2009. The Port submitted the Lower Duwamish Superfund site draft feasibility study to the Environmental Protection Agency and the Department of Ecology in April 2009 after extensive public outreach, and he continued to work with the agencies to resolve their comments on all the issues raised in the draft. He began implementation of the Northwest Ports' Clean Air Strategy and developed the Green Gateway marketing strategy. The Airport briefed the Commission on its ambitious, metric-based five-year environmental strategy, *A Vision for 2014 and Beyond*, covering energy use, air quality, materials use and recycling, water resources and wildlife, noise, education and integration on August 4, 2009. Earlier in 2009, the Airport had presented its Greenhouse Gas Reduction strategy to the Commission. The Commission approved funding, and a consultant was selected to run the Part 150 Noise and Land Use Compatibility Study. The Port adopted a Port-wide Green Purchasing Policy (CPO-2) in July 2009 and began to track environmental expenditures through the budget process.

Last November, the six West Coast container ports, along with BNSF and Union Pacific Railroad, announced a new strategy, the West Coast Ports Collaboration, to take advantage of the ports' combined resources, experience and proximity to Asia and to position the six ports more competitively for the future. Mr. Yoshitani initiated the collaboration to further strengthen the U.S. West Coast ports' position as the preferred gateway for Asian cargo to and from the Midwest and cities further east. The Port has been active in advocating for a freight chapter in federal surface transportation legislation; seeking alternative funding mechanisms for freight mobility infrastructure projects; opposing a container tax at the federal and state levels for all ports of entry and closing the land border loophole; and working to eliminate the competitive disadvantage of the Harbor Maintenance Tax.

During 2009, the Port increased its engagement with governments at the federal, state and local levels and improved outreach to local community groups. The CEO networked with key stakeholders on a regular basis. The results of the Economic Impact Study were broadly disseminated.

Mr. Yoshitani oversaw significant change in the Real Estate Division in 2009. A strategic re-assessment of the portfolio is underway to meet the goal of profitable operations within five years, with inventory, valuations and real estate tiers established. The division moved quickly in late 2009 when the General Services Administration (GSA) began looking for property around the Airport for a new Federal Aviation Administration regional headquarters building. No decision has been made, but the Port is well placed to compete for this GSA project. The Port's weighted occupancy goals are just below their targets, but they have outperformed the market.

Other significant accomplishments during 2009 included obtaining nearly $8.7 million in federal stimulus funding for the Port and actively supporting another $639 million for projects that were funded and are directly linked to the Port's strategic priorities; developing a closer working relationship with the Port of Tacoma, including joint marketing activities and transportation project prioritization; developing the Customer Support Plan at the Seaport to retain customers during the downturn and obtaining Commission approval for it; selecting a new taxi-cab contractor through the RFP process; welcoming Icelandair's new passenger service and Lufthansa's new freighter service to the Airport last summer; beginning to restructure the Port's small business program; securing the approval of a plan to adjust prime concessionaires' and Disadvantaged Business Enterprise contracts because of changes in gate assignments at the Airport; working with tenants and the Seattle Fire Department to improve "net shed" storage facilities at Fishermen's Terminal; holding Port 101s, Sea/Air School and other major outreach events; supporting the continued success of the Veterans Fellowship Program; and presenting the Century Agenda Guiding Principles to the Commission for adoption.

Finally, Mr. Yoshitani has made strategic incremental changes at the senior management level since his last performance review in May 2008 and has assembled an exceptionally talented team that will provide the Port with solid leadership over the next five to ten years.

A few goals fell behind schedule in 2009, such as completing a Strategy for the Real Estate Division to operate profitably within five years, but this work is well underway and was in part slowed by marketplace realities. Several capital projects were delayed, such as the Pre-Conditioned Air Project. Two projects still underway have been identified as high priorities by the Commission: 1) the completion of a succession plan, which should be finished as soon as possible; and 2) the launch of a new external website. Web site funding was eliminated during the 2009 budget revisions but will proceed in 2010. These issues are not significant enough to detract from his superlative performance in 2009 and reflect the difficult business climate and financial situation of the year.

OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:

2009 Chief Executive Goals and Objectives approved by the Commission on August 4, 2009.