



Commissioners

Bill Bryant
Chair and President
Tom Albro
John Creighton
Rob Holland
Gael Tarleton

Tay Yoshitani
Chief Executive Officer

P.O. Box 1209
Seattle, Washington 98111
www.portseattle.org
206.787.3000

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**APPROVED MINUTES
COMMISSION REGULAR MEETING OCTOBER 5, 2010**

The Port of Seattle Commission met in a regular meeting at 1:00 p.m., Tuesday, October 5, 2010 in Commission Chambers, Pier 69, 2711 Alaskan Way, Seattle, WA. Commissioners Albro, Bryant, Creighton, Holland, and Tarleton were present.

1. CALL TO ORDER

The regular meeting was called to order at 1:10 p.m. by Bill Bryant, Chair and President.

2. EXECUTIVE SESSION pursuant to RCW 42.30.110

None.

PLEDGE OF ALLEGIANCE

3. APPROVAL OF MINUTES

Motion for approval on the August 24 regular meeting minutes – Tarleton

Second – Albro

Motion carried by the following vote:

In Favor: Albro, Bryant, Creighton, Holland, Tarleton (5)

4. **SPECIAL ORDER OF BUSINESS**

None.

5. (00:01:43) **UNANIMOUS CONSENT CALENDAR**

Items 5d and 5f were removed from the Consent Calendar for separate discussion and votes.

- a. **Authorization for the Chief Executive Officer to execute three perpetual, nonexclusive easements (Bulkhead Panel and Retaining Wall Maintenance Easement, a Public Access Easement, and a Storm Water Drainage Facilities Easement) that the Port of Seattle will grant to the City of Seattle to meet certain conditions imposed by the City for the vacation of submerged South Forest Street.**

Request documents: Commission agenda [memorandum](#) dated September 22, 2010 and [attachments](#) from Michael Burke, Senior Manager, Container Leasing and Operations; Mike Kriston, Seaport Real Estate Specialist; and George Blomberg, Senior Environmental Program Manager.

- b. **Authorization for the Chief Executive Officer to amend the existing Main Lease #000307 of the Transportation Security Administration (TSA), represented and negotiated by the General Services Administration, extending the Lease term for three years for a total estimated rent over the term of the extension of \$2,886,439.**

Request document: Commission agenda [memorandum](#) dated August 18, 2010 from James R. Schone, Director, Aviation Business Development and James Jennings, Manager, Aviation Properties

- c. **Authorization for the Chief Executive Officer to extend the contract for Financial Statement, Single Audit (federal grant compliance) and Passenger Facility Charge auditing services of the Port's 2010 operating period with Moss Adams in an amount not-to-exceed \$577,600. This is the fifth and final renewal of this contract. This action also notifies the Commission, per requirements of RCW 53.19.60, that authorization of the proposed Amendment increases the contract value by \$577,600 to \$2,965,200, which is in excess of the original contract value both individually and cumulatively greater than 50% of the original contract price of \$551,000.**

Request document: Commission agenda [memorandum](#) dated September 28, 2010 from Dan Thomas, Chief Financial and Administrative Officer; Rudy Caluza, Director, Accounting and Financial Reporting; and Lisa Lam, Senior Manager, Financial Reporting and Controls.

- e. **Authorization for the Chief Executive Officer to approve all work and contracts, including executing and amending any and all necessary contracts and service directives for the Microsoft Windows 7 and Office 2010 upgrade project (CIP #C-800395), in an amount not-to-exceed \$500,000.**

Request document: Commission agenda [memorandum](#) dated September 17, 2010 from Peter Garlock, Chief Information Officer

Motion for approval of Consent Items 5a, 5b, 5c and 5e – Creighton

Second - Tarleton

Motion carried by the following vote:

In Favor: Albro, Bryant, Creighton, Holland, Tarleton (5)

- d. (00:02:58) Authorization for the Chief Executive Officer to approve all work and contracts including executing and amending any and all necessary contracts and service directives to (1) purchase and implement information technology hardware and software for the Police Records Management System Replacement Project (CIP #C-800393), in an amount not-to-exceed \$1,300,000, and (2) purchase ongoing annual support and software licenses fees for the life of the system.**

Request document: Commission agenda [memorandum](#) dated September 16, 2010 from Colleen Wilson, Chief of Police and Peter Garlock, Chief Information Officer

Staff available for questions: Chief Wilson and Mr. Garlock

Chief Wilson and Mr. Garlock responded to questions from Commissioner Albro as to the importance of proceeding with this project at this time. Chief Wilson stated that it will address efficiency issues, noting that the current records management system does not function adequately and she is not confident with some of the statistical data being reported to the State. She pointed out that as the police department functions on data, it is critical to have correct information available. Mr. Garlock commented on the current system being dysfunctional, noting that the original vendor who supplied the system did not provide updated functionality to the system, and he stated that such a system has to be able to interface with many other systems.

Motion for approval of Item 5d – Tarleton

Second – Albro

Motion carried by the following vote:

In Favor: Albro, Bryant, Creighton, Holland, Tarleton (5)

- f. (00:09:43) Authorization for the Chief Executive Officer to execute a Memorandum of Agreement (MOA) between the Port and the Teamsters Local 117, representing Bus Drivers and Parking Service Revenue Representatives, regarding the use of sick leave for medical/dental appointments.**

Request document: Commission agenda [memorandum](#) dated September 13, 2010 and copy of [MOA](#) from Kim Ramsey, Labor Relations Manager

Staff available for questions: Ms. Ramsey and Gary Schmitt, Director, Labor Relations

Commissioner Albro raised questions as to whether or not this action will obligate the Port to increase costs, and also whether or not this is a standard we will go to with all other agreements. Ms. Ramsey responded that this should not increase any costs. She also commented on Commissioner Albro's question regarding what happens with unused sick leave for these employees, stating that at separation, the employees receive 50%.

Written comment was received regarding Item 6f from Tracey A. Thompson, Secretary Treasurer; and James V. Smith II, Director of Corrections & Law Enforcement/Staff Attorney; and Matthew A. House, Public Sector Coordinator, Teamsters Local 117. A copy is, by reference, made a part of these minutes; is marked Exhibit 'A'; and is on file in Port offices.

Motion for approval of Item 5f – Holland

Second – Tarleton

Motion carried by the following vote:

In Favor: Bryant, Creighton, Holland, Tarleton (4)

Opposed: Albro (1)

6. DIVISION, CORPORATE AND COMMISSION ACTION ITEMS

- a. (00:13:41) **Resolution No. 3643, First Reading. Authorizing the sale and issuance of Passenger Facility Charge (PRC) Revenue Refunding Bonds, Series 2010, in the aggregate principal amount of not-to-exceed \$165,000,000 (preliminary) for the purpose of refunding for interest cost saving a portion of existing Passenger Facility Charge Revenue Bonds.**

Request documents: Commission agenda [memorandum](#) dated September 23, 2010 from Elizabeth Morrison, Senior Manager, Corporate Finance. Also provided was a copy of the [Resolution](#).

Ms. Morrison noted that she had briefed the Commission on this Resolution at the previous Commission meeting, and reviewed the following key points:

- The Resolution authorizes the sale and issuance of PFC Revenue Bonds, Series 2010
 - The bonds are secured solely by the PFC's collected at the Airport
 - No other revenue or funds of the Port are pledged to pay these bonds

- The proceeds from the bonds will be used to call \$159 million of outstanding PFC's bonds issues in 1998; and \$31 million of the 1998 bonds will remain outstanding because they are not currently callable

She stated that the refunding is estimated to save \$13 million on a present value basis, which will reduce Airport costs.

Motion for First Reading of Resolution No. 3643 – Creighton

Second: Tarleton

Motion carried by the following vote:

In Favor: Albro, Bryant, Creighton, Holland, Tarleton (5)

- b. (00:20:27) **Resolution No. 3642, Second Reading and Final Passage, as Amended and Restated. Amending Unit 20 of the Comprehensive Scheme of Harbor Improvements of the Port of Seattle by declaring certain real property surplus and no longer needed for Port district purposes; deleting said property from Unit 20 of the Comprehensive Scheme of Harbor Improvements; and authorizing the Chief Executive Officer to execute all documents necessary to transfer title of the property to the State of Washington Department of Transportation (WSDOT). The Port will receive \$6,320,021.00 plus interest of approximately \$67,095.00 in total compensation for the sale of this property.**

Request document: Commission agenda [memorandum](#) dated September 29, 2010 from Isabel Safora, Deputy General Counsel. Also provided was a copy of the [Resolution](#).

Motion for Second Reading and Final Passage of Resolution No. [3642](#), as Amended and Restated – Albro

Second – Holland

Motion carried by the following vote:

In Favor: Albro, Bryant, Creighton, Holland, Tarleton (5)

7. STAFF BRIEFINGS

- a. (00:22:01) **Briefing on the extension of the letter of credit provided by the Bank of America in support of \$100,000,000 of the Port's commercial paper (CP) program.**

Presentation documents: Commission agenda [memorandum](#) dated September 23, 2010 and computer slide [presentation](#) from Elizabeth Morrison, Senior Manager, Corporate Finance.

Ms. Morrison stated that this extension is for a letter of credit that was initiated in 1997, when the CP program began, and which has been extended several times. She noted that this extension is due in large part to the recent financial crisis, and resulting impacts to the letter of credit market.

A review of key changes included in the extension was given, providing information on the impact of the financial crisis as well as both negative and positive changes which have resulted. Ms. Morrison also commented on progress being made on replacing the next letter of credit, which is due to expire in January, 2011.

Ms. Morrison provided a review of the Port's variable rate debt program, noting that both long-term bonds as well as a short-term commercial paper program are used. She also reviewed more in-depth information on the commercial paper program, which began in 1997, and commented on the uses of this short-term program.

Ms. Morrison spoke about the way in which the letter of credit function plays a critical part in supporting the commercial paper program by giving liquidity to investors.

Responding to a question from Commissioner Tarleton as to whether the recent shift in the market seems to be fundamental or temporary, Ms. Morrison stated that she hopes it is not a fundamental change, and that it is more of an extreme swing of the pendulum. She said that although she hopes to see some easing over the next several years, she is not certain that things will return to where they once were in this area.

b. (00:50:47) 2011 Preliminary Operating Budget Briefing

Presentation documents: Commission agenda [memorandum](#) dated September 30, 2010 from Dan Thomas, Chief Financial and Administrative Officer; Ralph Graves, Managing Director, Capital Development Division; Borgan Anderson, Senior Manager, Aviation Division; Boni Buringrud, Finance and Budget Manager, Seaport; and Michael Tong, Corporate Budget Manager. Also provided was a computer slide [presentation](#).

Presenters: Various, as noted below for each division

Mr. Thomas introduced the presentation, providing background information on cost-cutting measures taken since the 2009 budget, which were related to the economic downturn. He commented on early and proactive action taken, which included cutting discretionary spending; implementing two-week furloughs; and eliminating retiree medical subsidy. He also spoke about the 2010 zero based budgeting which was implemented, resulting in a reduction of over \$13 million.

Commissioner Albro noted that it would be helpful for him to see the budget summary information presented over a previous period of 5-10 years, which might make it easier to see what is happening over time. He stated that he would also like to see the balance sheet with year over year changes, as well as that same analysis without including the Aviation side.

(01:20:59) Aviation Division

Presenters: Mark Reis, Managing Director, Aviation Division and Mr. Anderson

Mr. Reis opened the presentation commenting on the business goals of the division, which drive the preparation of the budget. Those goals include managing growth in airline cost per enplanement (CPE); growing net operating income (NOI); generating excess cash flow to help fund capital projects and also offset some of the airline operating costs; and maintaining unrestricted cash flow and investments equal to at least ten months of O&M costs.

Mr. Reis commented on changes specific to the Airport which have been made as a result of the economic downturn, similar to those mentioned earlier by Mr. Thomas, and also noted that there is currently little room in the baseline budget for more cuts.

Mr. Reis stated that recent airline industry trends point to recovery, noting that he is more confident in that recovery than he was two months ago. He noted that the airline industry has now seen eight consecutive months of growth, and also commented on the recent increase in non-airline revenues at the Airport.

Responding to a question from Commissioner Creighton as to potential impacts to Alaska Airlines related to a Southwest Airlines/AirTran merger, Mr. Reis stated that impacts would be more consequential in the larger competitive marketplace, and should not have any major impact at Sea-Tac.

Mr. Reis commented on budget issues related to the following areas:

- Payroll costs
- Contractual/Unavoidable cost increases
- New facilities
- Regulatory requirements
- Customer/Partner requests
- Unsustainable prior cuts
- Non-airline revenue development

Mr. Anderson continued the presentation, commenting on non-airline business and key indicators as well as aeronautical business and key indicators. Mr. Anderson then provided a summary of the FTE's in the Aviation Division, reviewing steps taken for the 2010 budget as well as anticipated changes for 2011.

Mr. Anderson then provided a summary of Aviation Division expenses, both by account and department.

Mr. Anderson commented briefly on budget risks and opportunities, noting that the proposed 2011 budget does not include potential operating costs associated with terminal realignment.

In summary, Mr. Anderson commented on the profitability of the airline industry, with revenues growing. At Sea-Tac, he noted that the airlines are pushing for major capital investments in the terminal and reiterated that recent trends in enplanement growth and non-airline revenue growth point to recovery.

(02:15:47) Seaport Division

Presenters: Linda Styrk, Managing Director, Seaport Division and Ms. Buringrud

In opening the presentation, Ms. Buringrud reviewed the division's key strategies, which were presented at the 2011 business plan briefing, related to the following areas of focus:

- Commercial (Business)
- Asset Stewardship
- Green Gateway

She then addressed the following key revenue assumptions, driving revenue:

- TEU volume, which affects crane rent, 12% increase over 2010 budget
- Eagle rate increase effective July, 2010
- Cruise forecast 6% decrease in passengers, but are optimistic for a rebound in 2012
- Grain volume 10% increase from 2010 budget

Ms. Buringrud and Ms. Styrk responded to questions from Commissioners Tarleton and Albro regarding the anticipated CPI for 2011. Commissioner Albro stated that it would be helpful to look at how the budget would look with a CPI lower than the anticipated 1.5%.

Related to expense issues, Ms. Buringrud commented on the following areas:

- Comprehensive Asset Condition Assessments
- Maintenance Dredging at Terminal 5
- Stormwater requirements related to the Green Gateway Strategy
- Support of ABC Fuels Program

Ms. Buringrud then spoke about projected revenues for both the containers and support properties group and the cruise and industrial properties group. Following discussion of initiatives related to exporting, Commissioner Holland raised the idea of having a roundtable discussion specific to this topic.

Ms. Buringrud then moved to the expense portion of the budget, and compared ongoing expenses from the 2010 budget to the 2011 budget. She also commented on expenses related to Seaport initiatives, which tie in to the division's strategies. The initiatives addressed included the following areas:

- Condition assessment of container terminals as well as of cruise and industrial docks

- Maintenance dredging at Terminal 5
- Environmental program costs
 - Air
 - Stormwater
 - Permitting and compliance programs
- Terminal efficiency certification

Responding to questions from Commissioner Creighton as to how much has been spent on stormwater projects over the past few years, and how much is remaining, staff agreed to provide that information.

Commissioner Holland commented on the Northwest Ports Clean Air Initiative and ABC Fuels, suggesting that it be expanded to include analysis of the issue of using fuels other than diesel, such as natural gas.

Ms. Styrk stated that staff could look into the issue, but it would need to be deferred until the clean truck plan is implemented in order to allow enough staff time to do so.

Ms. Buringrud then provided a summary of the Seaport division's FTEs, and a look at a staffing comparison from the year 2008 through 2011.

Seaport's 2011 budget summary was then provided, with information broken out for the following business units:

- Containers and Support Properties
- Cruise
- Bulk Grain
- Docks and Industrial Properties

Ms. Buringrud also spoke about potential future risks, including:

- Economic uncertainties, causing a potential impact on container and cruise volumes
- Unexpected repairs
- Environmental reserves
- Performance audit implications

(03:08:25) Real Estate Division

Presenters: Joe McWilliams, Managing Director, Real Estate Division and Ms. Buringrud

Ms. Buringrud commented on key assumptions affecting revenue as follows:

- Marina occupancy rate is down slightly from the 2010 budget, with the biggest player being Shilshole Bay Marina
- Fishing and commercial occupancy rates projected to be slightly higher than 2010 budget

- Commercial properties targeted at 90% occupancy
- Bell Harbor International Conference Center forecasted to increase by over 16% over 2010
- Continued ownership of Eastside Rail Corridor
 - Increased staff time spent on requests for easements/licenses/leases
 - Expanding maintenance issues
- Continued execution of deferred maintenance plan, with \$2.1 million of projects budgeted for 2011

Budgeted revenues were reviewed for the following Real Estate Business groups:

- Harbor Services
- Portfolio Management
 - Commercial
 - Third Party
- Development and Planning
- Eastside Rail Corridor
- Facilities and Maintenance

Ms. Buringrud then reviewed the Real Estate division expense budget, comparing 2010 to 2011.

Related to deferred maintenance, Commissioner Tarleton commented on the importance of understanding budgeting for increased maintenance in order to prevent further deferred maintenance, and also of knowing whether the work would be done with in-house labor or going outside of the Port.

Ms. Buringrud commented on the budget as related to the division's following initiatives:

- Deferred maintenance
- Net shed related work
- Terminal 91 development study – 50% paid by Real Estate and 50% paid by Seaport

Reviewing the division's FTE's, Ms. Buringrud noted the net change between 2010 and 2011 is zero.

Ms. Buringrud provided a summary of expenses for the division broken out by business group, as well as a budget summary of both revenues and expenses for the years 2008-2011.

Ms. Buringrud and Mr. McWilliams commented briefly on the following potential risks to the division for 2011:

- Potential higher vacancies at properties
- Eastside Rail Corridor
- SAO audit compliance implications

(03:32:33) Capital Development Division

Presenter: Mr. Graves

Mr. Graves commented on how accounting changes over the past year have impacted the division, specifically what can be allocated to capital, and noting the significant change overall to the 2011 budget from that of 2010.

He provided a look at the 2011 budget as broken out by the departments that make up the division.

Commenting on some of the areas the division is devoting time to, Mr. Graves noted that there is investment in improving processes and that staff has prepared for an anticipated revisit of the State Auditor's Office (SAO) 2007 audit

Related to possible upcoming risks, Mr. Graves noted that the two main items are uncertainty as to what the capital program will include as well as changes to accounting practices.

(03:42:41) Corporate Division

Presenter: Mr. Tong and Mr. Thomas

Mr. Tong provided a high-level overview of the 2011 corporate budget, and followed with information related to major budget changes. The changes commented on included the following:

- Increase in salaries as a result of converting 6 contractors to FTEs.
- Reduction in non-union benefits
- Increase in contract wages and benefits
- New budget additions related to the AAPA Convention and the Port Centennial

Mr. Thomas commented on areas which were not funded based on preliminary requests, including an additional FTE in the internal audit department as well as consulting related to outreach in the area of small businesses. There were other areas mentioned which are anticipated to be funded at a lower level than was requested.

Mr. Tong noted that a total of \$4.7 million in budget requests were received, and \$1.8 million of that amount was approved.

In reviewing the expenses of the corporate budget, Mr. Tong commented on the following three departments with a notable increase for 2011:

- External Affairs – due mainly to the AAPA convention and the Port's Centennial
- Information and Communications Technology – due mainly to new system applications and support
- Police – due mainly to contractual increases

He also commented on several departments which will have a budget reduction, including Executive, Risk Services, Finance and Budget, and Accounting.

Commissioner Albro noted some concern over increases over the past two years, given the current economic climate, and commented that he believes there is still room for deliberation on all of the expenses.

Mr. Tong then provided a list of areas of risks identified which could impact the budget for 2011, as follows:

- SAO performance audit implications
- Insurance premiums on renewal
- Unexpected litigations or claims
- Unanticipated events and/or TSA mandates

(03:58:51) Discussion of Payroll and Options

Presenters: Mr. Thomas; Gary Buchanan, Director, Human Resources and Development; Tammy Woodard, Senior Manager, Total Compensation; and Gary Schmitt, Director, Labor Relations

Mr. Thomas began the presentation by providing a brief overview of actions taken over the past decade to proactively manage through a variety of business and economic challenges, noting that over that time period, staffing levels have decreases by 8.3%.

A comparison of the net operating income over the past ten years was also provided, and Mr. Thomas also noted that a large portion of the Port's revenue is reasonably stable, with approximately one-quarter of it subject to economic conditions.

Mr. Buchanan commented on the Port's strategy of being a 'High Performance Organization,' noting that two related expectations are high productivity, efficiency and strong financials as well as high levels of customer satisfaction and loyalty.

Mr. Buchanan stated that ways in which outcomes of this strategy are achieved include:

- Attracting and retaining superior performers
- Providing a motivating and engaging work environment
- Fostering an environment that promotes well thought out creativity and innovation
- Implementing a dynamic employee development program
- Providing a competitive pay and benefit program that is performance based for non-represented employees

He also commented on programs, policies and systems which have been created and promote excellence and deliver results. Specifically mentioned were programs that include stretch assignments; coaching and mentoring; and formal classes. Also noted were ASAP (Administrative Services At the Port); Diversity and Development Council; Learning Management System; and the Spirit and Wellness activities.

Mr. Buchanan stated that critical keys to maintaining a high performance organization include:

- Opportunities for advancement and career growth
- Having effective leadership
- Having important and meaningful work
- Pay and benefit programs that are competitive

Ms. Woodard then explained differences in pay programs for represented and non-represented employees, noting that one of the differences is the way in which pay changes are determined.

Ms. Woodard commented on the fact that the Port competes with both private and public sector organizations for employees, and has a goal of having market competitive pay for employees. In order to assess competitiveness, data received from both public and private employers is utilized. She noted, however, that private employers are not always willing to provide data for salary surveys used to obtain this information. Related to non-represented employees, Ms. Woodard stated that the goal is to keep pay ranges comparable to market.

Ms. Woodard noted that latest published salary surveys indicate all industry average pay increases of 2.9% to 3.0% for 2011, and that the Port's preliminary budget assumes a 2.5% average Pay for Performance increase for 2011.

Ms. Woodard then spoke about medical cost containment efforts, noting that health care costs are reviewed on an annual basis, and she briefly commented on changes implemented over the past two years due to increased medical costs, as well as further efforts to be made beginning in 2011. She stated that the 2011 employee premium increase combined with an increasing PERS retirement contribution will effectively reduce the average 2.5% Pay for Performance increase to 1.2%.

Mr. Thomas then reviewed a summary of the 2011 key payroll assumptions as follows:

- Average pay-for-performance increase of 2.5% for non-represented staff
- Medical benefit costs flat
- PERS retirement employer contribution increase from 5.3% to 8.6% effective mid-year
- Represented payroll varies by individual contract

Mr. Thomas provided a 2010-2011 payroll comparison, as well as reduction options in order to keep payroll flat for the year.

The remaining schedule for the budget season was reviewed, beginning with a tax levy discussion on October 12 through the statutory filing of the budget and release of the final budget and draft plan of finance in December.

8. NEW BUSINESS

(04:34:29) Commissioner Creighton raised the prospect of having a public discussion on the Clean Ports Act and issues related to legislation regarding Port trucking issues, noting that he thought it would be appropriate for the Commission to weigh in on this, and suggesting that it might be good to have on the December 7 agenda, or perhaps even sooner.

Trip Reports

Commissioner Tarleton reported on a recent trip to Asia with the Governor's Export Tour and Trade Mission. She stated that the mission was focused on issues which are core to the Port, including increasing airline service to Shanghai and Beijing and also on issues related to Sea-Tac Airport's strategy for becoming a cargo hub. Another area of focus was that of tourism and bringing tourists from Asia to Washington State.

Commissioner Holland then reported on a recent trip to Vietnam, commenting on work done to promote US exports, primarily agricultural products. He also noted that many Chinese manufacturers are moving into Vietnam. He stated that he had also visited with SSA Marine, and was present for an opening of one of their new terminals.

Commissioner Creighton commented briefly on a personal trip he had recently taken to China, noting that while he was there, he was also able to participate in meetings with both Delta-Beijing and Hainan-Beijing, both of which were very positive meetings.

9. POLICY ROUNDTABLE

None.

10. ADJOURNMENT

There being no further business, the regular meeting was adjourned at 5:55 p.m.

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

Rob Holland
Secretary