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Audio and video recordings of the meeting proceedings and meeting materials are available on the Port of Seattle web site - http://www.portseattle.org/about/organization/commission/commission.shtml

(The approximate point in the audio recording for the specific item is identified by hours, minutes, and seconds; example: 00:01:30 – ***note there are three audio parts for this meeting.****)*

APPROVED MINUTES
COMMISSION SPECIAL MEETING AUGUST 16, 2011

The Port of Seattle Commission met in a special meeting Tuesday, August 16, 2011, at Port of Seattle Headquarters, Commission Chambers, 2711 Alaskan Way, Seattle, Washington. Commissioners Albro, Bryant, Creighton, and Tarleton were present. Commissioner Holland was absent. Commissioner Bryant was absent after 10:08 a.m.

1. CALL TO ORDER

The special meeting was called to order at 8:07 a.m. by Bill Bryant, Commission President.

2. EXECUTIVE SESSION pursuant to RCW 42.30.110

None.

PLEDGE OF ALLEGIANCE

3. (00:01:24 – Audio Part 1) APPROVAL OF MINUTES

Special Meeting of June 28, 2011.

Motion for approval of minutes for the June 28, 2011, special meeting – Albro

Second – Tarleton

Motion carried by the following vote:

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

Absent for the vote: Holland

4. (00:02:17 - Audio Part 1) SPECIAL ORDER OF BUSINESS

a. Distinguished Budget Presentation Award.

Presentation document(s): Commission agenda memorandum dated August 8, 2011, provided by Dan Thomas, Chief Financial and Administrative Officer, and Michael Tong, Corporate Budget Manager.

Presenter(s): Mr. Thomas.

Mr. Thomas stated the Port had achieved the Budget Presentation Award from the Government Finance Officers Association of the United States and Canada (GFOA) for its 2011 budget document for the fourth consecutive year. He said it represents the commitment of Port staff and the Commission to the highest standards of transparency, public accountability, fiscal responsibility, and excellence in financial management. Commissioner Tarleton stated that the Port's budget document is highly accessible, and Commissioner Bryant voiced appreciation to staff and concurred with Commissioner Tarleton about the ease of use of the budget document.

b. GFOA Financial Reporting Award.

Presentation document(s): Commission agenda memorandum dated August 5, 2011, from Rudy Caluza, Director of Accounting and Financial Reporting.

Presenter(s): Dan Thomas, Chief Financial and Administrative Officer.

Mr. Thomas reported that the Port had received the GFOA Financial Reporting Award for its 2009 Comprehensive Annual Financial Report (CAFR) and stated the CAFR must undergo rigorous impartial review by a panel of judges and be evaluated against over 250 stringent criteria in order to receive the award. The Port achieved the highest possible ratings across all major evaluation areas. This is the fifth consecutive GFOA certification and award of excellence received by the Port.

5. UNANIMOUS CONSENT CALENDAR

None.

6. DIVISION, CORPORATE, AND COMMISSION ACTION ITEMS

None.

7. STAFF BRIEFINGS

a. (00:09:28 – Audio Part 1) 2012 Key Budget Assumptions and Business and Capital Plans.

Presentation document(s): Commission agenda memorandum dated August 8, 2011, provided by Dan Thomas, Chief Financial and Administrative Officer, and Michael Tong, Corporate Budget Manager. Also provided was a computer slide presentation.

Presenter(s): Mr. Thomas and Mr. Tong.

Commissioner Albro thanked staff for putting together a thorough presentation and suggested spending time with the Commission to organize the information in budget presentations. He suggested focusing on the assumptions and guidelines that drive preparation of the budget and how they correspond to the Port's strategic objectives, so the Commission can provide guidance in the process of preparing the budget. Commissioner Bryant concurred and stated he would like to see how the budget will be used to reach the Century Agenda goals. Mr. Yoshitani stated that it is important to consider the public's need for information and background that may seem superfluous to Commissioners. Commissioner Albro agreed and commented that context is important.

Budget Planning Assumptions

Mr. Thomas went over the background of the 2012 budget, noting the following:

- In 2009 the Port took early and proactive steps to cut costs including furloughs, and cuts in discretionary spending;
- In 2010 the Port went through a zero-based budgeting process and reduced $1 million of costs and eliminated 6.2 percent (110 positions) of the employee base; and
- In 2011 the Port matched expenses to revenues to maintain net operating income (NOI).

He stated the 2012 budget plan assumptions include the following:

- Economic outlook is still uncertain;
- Budgeting process will incorporate Commission guidance;
- Focus on managing overall Operation and Maintenance (O&M) and corporate costs;
- Revenue assumptions are yet to be finalized; and
- Discussion of the tax levy as part of Plan of Finance is expected in the fall.

Mr. Thomas noted the following preliminary payroll assumptions:

- Human Resources and Development (HRD) is assuming a three percent average merit pay adjustment based on preliminary market assessment, which is also in line with inflation numbers;
- Total Rewards Philosophy development continues, but will have a minimal impact on the 2012 budget;
- There will be a medical cost increase of 2.9 percent, which after minor plan changes will drop to a net two percent increase, compared to an anticipated eight percent increase nationally;
- Although the 2012 Public Employees Retirement System (PERS) employer contribution rate is not yet finalized; the 2012 preliminary budget is based on a contribution rate of 7.25 percent, which will be reviewed as new information becomes available.

Commissioner Creighton asked what the range would be for the three-percent pay increase. Tammy Woodard, Total Rewards Senior Manager, stated there is no proposed range currently, but the plan is to extend from last year, increasing the top of the range slightly.

Commissioner Albro commented on the importance of keeping the organization financially sustainable and voiced his concern that the rate of growth of revenues is slower than the rate of growth of expenses; he stated he will need more information on where the three-percent pay increase is coming from. He said the Commission should ratify the pay range and suggest a number.

Commissioner Tarleton asked for the average pay increases that have been negotiated in the represented workforce for the last two years and the range because she stated she would like there to be equity between the merit-based workforce and the represented workforce. Mr. Yoshitani stated that the number is part of a larger budget issue and needs to be determined in its proper context.

Commissioner Albro remarked that his main concern is with the flatness of the top line revenues. Mr. Yoshitani noted that the immediate challenge is understanding the diversity of the Port's operations to create a single salary adjustment policy that is equitable. Mr. Thomas noted that the current policy is to base the pay-rate increases on market data.

Commissioner Bryant requested that there be two charts for NOI, aeronautical and non-aeronautical. He noted that some of the NOI has restricted uses and it is important to know what money is nonrestricted. Mr. Thomas acknowledged there are some challenges in the way the NOI is measured and staff will look into refining it. Commissioner Tarleton stated that is it important to know where the money is coming from and where it can be used. Mr. Thomas stated that the financial software doesn't easily break out the aeronautical and non-aeronautical expenses, but it is something staff is looking at providing in the future.

Corporate Division

Presenter(s): Mr. Thomas; Mr. Tong.

Mr. Thomas presented corporate cost trends since 2005 and noted the following:

- Shifts of departmental responsibilities and associated costs to and from the Corporate Division over time presents a trending challenge;
- Adjustments were required for Information and Communications Technology (ICT) costs, which in some years were budgeted in other departments;
- One-time expenses were removed for trending purposes; and
- The 2007 performance audit and investigation costs were removed to provide a more representative baseline.

Mr. Thomas stated that corporate costs as a percent of total revenue were relatively stable since 2005, as were O&M costs. He said the adjusted expense growth rate over the past six years was 3.9 percent and Port revenues grew only 2.9 percent, but noted there is a wide margin in the costs.

Mr. Thomas explained that the order of magnitude of difference between the actual numbers for revenues compared to expenses was such that it would take a seven-percent increase in expenses to neutralize a one-percent increase in revenue.

Commissioner Tarleton advised that there are specific requirements for costs to be included in the Corporate budget, a number of which are not optional or might not be otherwise appropriate to cut. Commissioner Albro agreed and added that the Port doesn't have strong pricing power, so it is important to find opportunities to increase revenues in order to improve net margin so appropriate investments can be made. Mr. Thomas noted that a lot of expenses, such as for ICT, are driven by and benefit other departments. Mr. Thomas stated the numbers are not alarming, but deserving of attention.

Mr. Tong went over the 2012 budget calendar as follows:

- August
  - Budget user/refresher training;
  - 2012 budget guidelines released; and
  - Commission meetings on division business and capital plans, and budget assumptions.
- September
  - Prepare preliminary operating and capital budgets;
  - Internal budget reviews by each department and division;
  - Executive preliminary budget reviews; and
  - Commission capital budgets meeting on September 27, 2011.
- October
  - Operating budget discussion at a Commission meeting;
  - Preliminary budget document available to Commission on October 18, 2011;
  - Draft Plan of Finance discussion October 25, 2011; and
  - Release the 2012 Preliminary Budget and Draft Plan of Finance Document to the public on October 27, 2011.
- November
  - First and Second Reading of budget resolution.
- December
  - File statutory budget on December 1, 2011; and
  - Mr. Tong noted a correction to the slide the release of the 2012 Final Budget and Draft Plan of Finance Document to the public will be December 15, 2011, not 12/45.

Mr. Thomas noted that the budget schedule has been posted on the Port's website.

<u>(01:07:45 – Audio Part 1) Real Estate</u>

Presenter(s): Joe McWilliams, Managing Director, Real Estate; Elizabeth Morrison, Senior Manager, Corporate Finance.

Mr. McWilliams stated that the real estate market is still recovering, and listed Real Estate Division objectives, which included the following:

- Provide NOI consistent with 2011 levels;
- Continue execution of deferred maintenance obligations, originally a five-year plan, now anticipating a six-year plan; and
- Provide for amended real estate policies as necessary with regard to the following:
    - Purchase and sale of properties;
    - Competitive process requirements;
    - Establishment of an asset ranking system; and
    - Response to recommendations of the Century Agenda committee.

Mr. McWilliams suggested waiting to revise the Real Estate policies until after the Century Agenda panel on real estate in order to present one comprehensive policy for 2012. Commissioner Albro noted the real estate panel will be held in October.

Mr. McWilliams noted that the Port holds two properties that are difficult to lease, Pier 34 and the south end of Harbor Island, because of construction in the area that limits access to the properties. Commissioner Tarleton asked if there are legal restrictions on how revenue created by Real Estate holdings can be spent. Mr. McWilliams responded that a more discrete analysis would be provided in a future executive session regarding the details of current values, risks, and capital requirements of specific properties.

Mr. McWilliams outlined various real estate risks, including a potential unfavorable variance in carrying costs for continued ownership of the Eastside Rail Corridor and upcoming debt repayment for bonded indebtedness over the next five years.

Commissioner Albro noted that it is also important in some cases to consider the community benefit over financial benefit when evaluating real estate holdings.

Ms. Morrison described the pending real estate debt repayment noting the following issuances of revenue bonds:

- 1998 Series refunded bonds issued to pay for the Pier 69 facility;
- 2007 A Series bonds issued for governmental purposes and used to fund public uses at Shilshole Bay Marina; and
- 2007 B Series bonds issued for private activity and used to fund conversion of Terminals 30 and 91 and components of improvements at Shilshole Bay Marina.

Ms. Morrison explained that Real Estate NOI does not support payment of debt service for these bonds, which are currently funded from the Real Estate Division's portion of the General Fund. In response to Commissioner Bryant, Ms. Morrison noted that bonds are issued on a corporate basis, with a view to repayment from total revenues rather than specific project revenues.

Commissioner Tarleton noted that in 1998 the real estate market was performing well. Boni Buringrud, Seaport Finance and Budget Manager, stated that the net income includes properties other than Shilshole Bay Marina that are not performing well, and detract from NOI. Commissioner Albro asked if the bonds limit the Port in regard to disposition of properties. Ms. Morrison noted that the proceeds of the properties would have to be reinvested in other allowable uses of tax-exempt bond funding.

In response to Commissioner Tarleton, Mr. Yoshitani explained that separating the Real Estate and Seaport Divisions was intended to communicate to the public that Seaport activity was not being supported by the tax levy. He added that in the current economic climate it is difficult to make the Real Estate Division profitable.

In response to Commissioner Bryant, Ms. Morrison stated that it would cost more than the Port would save to recall and restructure the bonds. Commissioner Albro asked if the minimum required cash for the Real Estate general fund balance is a bond requirement, to which Ms. Morrison stated it is a management decision.

Commissioner Bryant asked to have a more transparent budget for 2012 that shows the uses of the tax levy towards legacy projects and public assets. In response to Commissioner Bryant, Mr. McWilliams confirmed that money generated from Airport property can only be used at the Airport. Commissioner Bryant asked for a non-restricted revenue to be separated out from restricted revenue.

Mr. McWilliams described the capital plans for properties in the Real Estate Division. He noted that the largest cost at Fishermen's Terminal is for the net sheds. There is one building at Fishermen's Terminal that the Port will take title to in 2013, and Mr. McWilliams noted the importance of assessing the current condition of the asset to plan for its future use.

Regarding the Central Waterfront, Mr. McWilliams stated the Bell Harbor Marina is not self-sustaining and the fire suppression system must be repaired or replaced in order to continue use of the facility. Commissioner Tarleton asked if projects on the Central Waterfront would be affected by work on the seawall, to which Mr. McWilliams stated the work would not affect the assets. Commissioner Albro asked to know which projects have payback and what the payback would be.

In regards to the Marine Maintenance Department, Mr. McWilliams noted several environmental sustainability improvements, and Commissioner Bryant requested a written list of the statistics of the department's initiatives.

Commissioner Bryant was absent after 10:08 a.m.

The special meeting was recessed at 10:08 a.m. and reconvened at 10:21 a.m., chaired by Commissioner Creighton.

<u>(00:00:32 – Audio Part 2) Aviation Division</u>

Presenter(s): Mark Reis, Managing Director, Aviation Division.

Mr. Reis noted that the airline industry was profitable in 2010, and is anticipated to be profitable in 2011. He stated recovery from the recession has been faster than expected, taking only three years and noted the NOI figure is misleading due to the Airport's cost recovery model. He said

NOI after debt service and interest income is a better indicator of net cash flow available to invest. He reported that the cost per enplanement (CPE) has been lower than the 2005 forecast. In response to Commissioner Tarleton, Mr. Reis noted that the current airline Signatory Lease and Operating Agreement (SLOA) ends in 2012.

Mr. Reis commented on capacity at the Airport and noted the following Airport initiatives:

- Airline realignment, which is an expense cost that does not create a new asset;
- Updating the Airport master plan;
- Upgrading communication infrastructure;
- Mid-term Federal Inspection Service (FIS) improvements, to meet the need for the next five years; and
- Development of a long-term FIS solution.

Commissioner Tarleton asked if staff could articulate what the customer service environment at the Airport would look like in five years. Mr. Reis responded that the goal to be a world-class customer service airport and the goal to have a low CPE are contrary to one another and so there is always some trade-off. The goal is to be one of the top ten customer service airports in the world under the Airport Service Quality (ASQ) survey. He explained that the Aviation Division has selected the top airports in the world to be compared to. As part of the survey, the Airport receives quarterly updates. Commissioner Tarleton asked for a briefing at a Commission meeting on the results of the ASQ survey and how the Airport is doing.

Mr. Reis stated the Airport's goal is to keep the CPE under $14 through 2016. Commissioner Tarleton asked what aspects have the biggest impact on the CPE. Mr. Reis stated that the number of enplanements is the biggest impact, but is not something the Airport can control.

Mr. Reis reported that another goal of the Airport is not to buy any more power than is currently used from Bonneville Power Administration, which will help keep the CPE low. In response to Commissioner Creighton, Mr. Reis noted that the Airport is a utility company, in the same way that Seattle City Light is a utility, and explained that the Airport buys power at the same rate as other utility companies and passes the cost on to tenants. This benefits the Airport because when there is a project that lowers power costs over time it is easier to get support from the tenants.

Mr. Reis noted that the FIS facility is subsidized, and helps reduce CPE. In the future SLOA, the Airport is hoping to be able to have greater control over how to use non-aeronautical revenue. Commissioner Albro asked if the SLOA has an impact on how the Airport can use real estate. Mr. Reis stated that his understanding is that if Airport money touched the property then the property is Airport property.

Mr. Reis discussed future capital investments including the following:

- Expansion of the Airport drives;
- Hotel infrastructure if a hotel proves viable;
- Long-term solution to FIS capacity needs;
- North Satellite expansion to add gates; and

- Land development infrastructure investment to support cargo and generate future revenues.

Commissioner Tarleton suggested the following environmental impact considerations:

- Stormwater infrastructure to protect South Puget Sound;
- Port efforts to promote aviation biofuels and find opportunities for shared infrastructure costs; and
- Determining the viability of an on-Airport recycling facility shared with surrounding cities to meet the Airport's growth.

Mr. Reis reported the following implications of the 2012 budget:

- Anticipated moderate enplanement growth of 1.5 percent;
- Need for growth of non-airline revenues, exemplified by a loss of $7 million in garage rent once rental car companies move to the new Consolidated Rental Car Facility, which will be offset partially by new land rent for a net loss of $4.7 million.
- Significant new operating costs are expected to operate rental car busing, which will be NOI neutral because they are paid for through customer facility charges; and
- Increase of $8 million in operating costs due to terminal realignment, which will be recovered through airline rent and be NOI neutral.

The special meeting was recessed at 11:30 a.m. and reconvened at 11:36 a.m., chaired by Commissioner Creighton.

(00:00:23 – Audio Part 3) Seaport Division

Presenter(s): Linda Styrk, Managing Director, Seaport; Boni Buringrud, Manager Seaport Finance & Budget.

Ms. Styrk noted that the economic outlook is uncertain with contradictory trade forecasts predicting either growth or decline in 2012, and the possibility of a double-dip recession.

Ms. Styrk discussed the following upcoming challenges for the commercial business:

- Terminal 46 lease agreement with Total Terminals International is up for an extension option by the tenant in 2012;
- The Grand Alliance agreement expires at Terminal 18 and they have an request for proposal (RFP) out and four terminal operators are bidding on the RFP; and
- Challenges to freight mobility and access due to nearby construction projects.

[Clerk's note: The Grand Alliance currently includes the shipping companies Hapag-Lloyd, Nippon Yusen Kaisha (NYK), and Orient Overseas Container Line (OOCL).]

Ms. Styrk and Ms. Buringrud went over the highlights for the different portions of the Seaport business lines noting the following:

- Global Cruise market is projecting seven percent growth;

- Alaska cruises remain very desirable domestically;
- Disney Cruise Line is adding Seattle as a home port during the 2012 cruise season;
- Corn and soybean export market forecast is good;
- 2008 was a record year for grain export, and 2012 should be about the same as 2011;
- Occupancy of Terminal 106, which will be leased by the state for the Alaskan Way Viaduct Replacement Project, is expected to remain constant; and
- The Port is still considered the gateway to Alaska for fishing and maritime business.

Commissioner Albro asked about the decreasing NOI in all lines of business. Ms. Styrk noted that there are several asset stewardship projects that will decrease the NOI. Commissioner Albro requested a five-year forecast of Seaport NOI.

In response to Commissioner Creighton, Ms. Styrk noted that the Port of Tacoma, Port of Bellingham, and even some ports in Alaska provide competition. Ms. Styrk noted that one of the challenges the Port of Seattle has is fuel prices and fuel supplies.

Regarding Fishermen's Terminal, Commissioner Albro requested a competitive analysis in order to examine the Port's rate structure. Ms. Styrk clarified that Fishermen's Terminal is under the Real Estate Division and is not part of the Seaport. The Seaport fishing trawler fleet is at Terminal 91. Commissioner Albro asked how linked the fishing fleet at Fishermen's Terminal is to the trawlers at Terminal 91. Mr. McWilliams noted that there are some large vessels at Fishermen's Terminal and there is crossover in regards to service and repairs.

Ms. Styrk noted the major Seaport asset categories of dock systems, including cranes; building systems, including utilities; yard systems, including pavement; and dredging, including annual surveys.

Ms. Buringrud noted a correction on the Seaport Financial Outlook slide in the presentation document, slide 74 was intended to list Seaport Security Grant expenses.

Ms. Styrk reported that Seaport business risks include the following:

- Competitive threats, such as widening of the Panama Canal, and International Longshore and Warehouse Union contract negotiations;
- Legislation and regulation that impedes Port competitiveness; and
- Increased taxes and fees due to State budgetary pressures.

Commissioner Albro asked if the rail rates were part of the competitive risks. Ms. Styrk stated that it is a concern because the majority of the Port's imports use intermodal transportation. Mr. Yoshitani pointed out that the railroads have a lot of pricing power. When the widened Panama Canal opens, the railroads will have to look at their rates versus an all-water cargo route and adjust them accordingly to stay competitive.

8. NEW BUSINESS

None.

9. POLICY ROUNDTABLE

None.

10. ADJOURNMENT

There being no further business, the special meeting was adjourned at 12:40 p.m.

Tom Albro
Assistant Secretary
Minutes approved: October 25, 2011.