



Commissioners

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Commission President
Tom Albro
John Creighton
Rob Holland
Gael Tarleton

Tay Yoshitani
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(The approximate point in the video recording for the specific item is identified by hours, minutes, and seconds; example: 00:01:30)*

**APPROVED MINUTES
COMMISSION REGULAR MEETING SEPTEMBER 27, 2011**

The Port of Seattle Commission met in a regular meeting Tuesday, September 27, 2011, in the International Auditorium at Seattle-Tacoma International Airport, Seattle, Washington. Commissioners Albro, Bryant, Creighton, Holland, and Tarleton were present.

1. CALL TO ORDER

The regular meeting was called to order at 12:10 p.m. by Bill Bryant, Commission President.

2. EXECUTIVE SESSION pursuant to RCW 42.30.110

The regular meeting was immediately recessed to an Executive Session estimated to last 60 minutes to discuss legal risk, real estate, and labor negotiation matters. Following the Executive Session, which lasted approximately 45 minutes, the regular meeting reconvened in open public session at 1:13 p.m.

PLEDGE OF ALLEGIANCE

3. (00:01:22) APPROVAL OF MINUTES

Regular meetings of July 26, 2011, and August 2, 2011.

Motion for approval of minutes for the July 26, 2011, and August 2, 2011, regular meetings – Albro

Second – Tarleton

Motion carried by the following vote:

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

4. **SPECIAL ORDER OF BUSINESS**

None.

5. (00:02:06) **UNANIMOUS CONSENT CALENDAR**

- a. Approval of [Claims and Obligations](#) for the period of August 1 through August 31, 2011, in the amount of \$44,994,365.42.
- b. Request Port Commission ratification of the issuance of change order #20 in the amount of \$75,000 and authorization for the Chief Executive Officer to issue a second as yet unnumbered change order for up to \$825,000, to demolish existing and install new replacement electrical panels at the Seattle-Tacoma International Airport for up to a total amount of \$900,000. Funds to cover the cost of the two change orders are part of the project contingency funds that were included in the previously approved Terminal Escalators Modernization authorizations (CIP #C800237).

Request document(s): Commission agenda [memorandum](#) dated September 16, 2011, provided by Ralph Graves, Capital Development Division Managing Director.

- c. **Authorization for the Chief Executive Officer to proceed with design of access control additions for doors at Seattle-Tacoma International Airport. This authorization is for \$300,000 of a total estimated project cost of \$1,800,000 (CIP #C800414).**

Request document(s): Commission agenda [memorandum](#) dated September 16, 2011, provided by Wayne Grotheer, Aviation Project Management Group Director, and Wendy Reiter, Aviation Security and Emergency Preparedness Director.

- d. **Authorization for the Chief Executive Officer to execute a professional services indefinite delivery indefinite quantity (IDIQ) contract for Airline Realignment tenant improvements and ticket counter design services totaling \$10,000,000 for four years in support of upcoming improvement projects at Seattle-Tacoma International Airport. No funding is associated with this authorization.**

Request document(s): Commission agenda [memorandum](#) dated September 19, 2011, provided by Michael Ehl, Airport Operations Director, and Wayne Grotheer, Aviation Project Management Group Director.

- e. **Ratification of critical work at Terminal 86 at the Grain Facility in accordance with Resolution No. 3605, as amended. The amount of the additional project funding is \$180,000.**

Request document(s): Critical work situation [memorandum](#) dated September 12, 2011, provided by Ralph Graves, Capital Development Division Managing Director.

Motion for approval of consent items 5a-5e – Tarleton

Second – Holland

Motion carried by the following vote:

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

6. DIVISION, CORPORATE, AND COMMISSION ACTION ITEMS

- a. (00:03:07) Authorization to increase the project budget for the Centralized Pre-Conditioned Air Project at Seattle-Tacoma International Airport by \$3,525,000 to include \$1,610,000 for additional construction contingency, \$1,096,000 for additional Port project team support, \$419,000 for additional support by Port Construction Services and \$400,000 for additional design team support; and authorization for the Chief Executive Officer to execute an amendment to the professional service agreement with Stantec Consulting in the amount of \$400,000 in accordance with Resolution No. 3605, as amended, Section 7.2.4 (CIP #C800238).

Request document(s): Commission agenda [memorandum](#) dated September 20, 2011, provided by David Soike, Aviation Facilities and Capital Program Director, and Wayne Grotheer, Aviation Capital Improvement Program Director.

Presenter(s): Mr. Grotheer.

Mr. Grotheer commented on the significant environmental and financial benefits of the Pre-Conditioned Air project and reported that over half of the total estimated project cost of \$44 million is being paid for by a Federal Aviation Administration (FAA) grant. Mr. Grotheer summarized the current status of the project and noted that the FAA grant imposed a tight deadline that resulted in the project being bid prior to refinement of the design or building permit approval, the risk of which had been justified by the opportunity to obtain the grant funding.

Mr. Grotheer explained the pervasive nature of the project, and commented on various technical challenges requiring project design changes and related infrastructure changes. He stated that planning for capacity changes at particular gates, especially at the North Satellite, also contributed to the project revisions.

In response to Commissioner Tarleton, Mr. Grotheer stated that the project has incorporated sufficient capacity to accommodate additional gates being added to the system, especially at the North Satellite. Commissioner Tarleton pointed out the tax contribution and job creation associated with the project.

Commissioner Albro commented that the Pre-Conditioned Air project is part of a strategy to reduce the Airport's carbon footprint and noted that the project costs not borne by the FAA grant are being funded by the Airport's airline tenants. In response to Commissioner Bryant, Mr. Grotheer confirmed that all the airline tenants are supportive of the project.

Mr. Yoshitani noted the similarity between the Pre-Conditioned Air project and upgrades to the baggage handling system, the design and timing of which was also affected by grant availability.

Motion for approval of item 6a – Tarleton

Second – Holland

Motion carried by the following vote:

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

- b. (00:10:53) Authorization for the Chief Executive Officer to implement a revised incentive program for new commercial air services for Seattle-Tacoma International Airport to include a proposed new category of services (Category A) for extra-long-haul international operations.**

Request document(s): Commission agenda [memorandum](#) dated September 26, 2011, provided by Michael Ehl, Aviation Operations Director, and Kazue Ishiwata, Air Services Development Manager.

Presenter(s): Ms. Ishiwata.

[Clerk's Note: Agenda item 6b was added to the agenda on September 26, 2011, at which time a revised notice was posted on the Port of Seattle website and an email notification was sent to regular notice recipients.]

Ms. Ishiwata reported on recent changes to the Airport's incentive program and described the further change proposed. She stated that the current proposal would add a category targeted at extra-long-haul international air services of 6,000 miles and longer with complete waiver of landing fees and international arrival facility charges for two years. She explained that the Airport's current program is based on a 5,000-mile threshold. Ms. Ishiwata described the key cost factors for the airlines associated with the type of aircraft able to provide services at 6,000 miles and with establishing new service.

Because the FAA does not allow categorization by aircraft type or number of seats, Ms. Ishiwata explained that the proposal is based on miles traveled consistent with the other categories in the Airport's current incentive program.

Ms. Ishiwata reported that the Airport's gain is projected to be higher with extra-long-haul aircraft service than with other existing categories in the incentive program, which receive a corresponding slightly lower incentive. She stated revenue from extra-long-haul service is estimated at more than \$2 million annually and that after deducting the airline waiver of slightly less than \$1 million, the remaining revenue would exceed the waived amount.

In response to Commissioner Creighton, Ms. Ishiwata reported that the incentive is limited to unserved destinations. She added that when an airline announces service prior to another airline actually providing the first service to a destination, the Port retains discretion to determine the incentive level. Ms. Ishiwata commented that the Port does not tailor its incentive program to suit a single airline but designs its program to be equitable to all similarly situated airlines.

In response to Commissioner Tarleton, Mark Reis, Aviation Division Managing Director, reported that all Airport revenue goes into the Airport Development Fund, either as airline or nonairline revenue. He stated that the waived fees would not exist if the carrier were not to take advantage of the incentive program. Beginning in the third year of service, the airline would begin paying the applicable fees. Mr. Reis pointed out that there is no lost revenue due to the incentive program because the service would not otherwise provide revenue to the Airport. Regarding fees that are paid by the incentive program carrier, Mr. Reis explained that this revenue supports terminal

facilities, such as ticket counters and office space, for which the other airlines would be charged slightly less in the Airport's cost recovery formula, due to addition of the new carrier.

In response to Commissioner Creighton, Mr. Reis remarked that non-aeronautical revenue does not subsidize the airline incentive program, but noted that facility charges for use of the Federal Inspection Service (FIS) are reduced through the airline incentive program. Mr. Reis explained that the cost recovery assessment model by which the Airport determines the cost of the FIS facility charges, which is made possible by maintenance of sufficient non-aeronautical revenue, is beneficial and attractive to international carriers.

Commissioner Albro commented that the proposal supports the preliminary Century Agenda objective to double international flights and noted the benefit to the Airport of the joint marketing provision in the incentive program to promote the Seattle-Tacoma International Airport as a destination in markets that would otherwise be closed to it.

Motion for approval of item 6b – Albro

Second – Creighton

Motion carried by the following vote:

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

7. STAFF BRIEFINGS

a. (00:25:37) Monthly Briefing – Update on the Consolidated Rental Car Facility Program.

Presentation document(s): Commission agenda [memorandum](#) dated September 9, 2011, [attachment](#), and computer slide [presentation](#), provided by Michael Ehl, Airport Operations Director; George England, Project Management Group Program Leader; and Janice Zahn, Engineering Construction Services Assistant Director.

Presenter(s): Mr. England and Ms. Zahn.

Ms. Zahn reported that for all projects, there are approximately 140 workers on site and that the Rental Car Facility (RCF) is about 95 percent complete, the Off-Site Roadway Improvements (ORI) are about 64 percent complete, and the Bus Maintenance Facility (BMF) is about 50 percent complete. She outlined specific work in progress and noted that the wayfinding project in the Main Terminal has begun.

Ms. Zahn presented a chart of revised figures for contract costs, noting in response to Commissioner Bryant that additional costs in review for nonsuspension contract changes have increased by approximately \$5.5 million. She stated that of the nearly \$19 million in this category, about \$14.5 million are in claims. In response to Commissioner Bryant, Ms. Zahn explained that, although staff does not anticipate the need to execute all the additional costs in review, if the full amount were executed, the expenditure would be funded by unallocated project savings in the various parts of the project and from unallocated program contingency.

Commissioner Albro requested additional information as to the percentage of original claims reflected by the \$11.5 million already executed in nonsuspension contract changes.

In response to Commissioner Tarleton, Ms. Zahn commented on the process for evaluating entitlement of the contractor for claims in light of the contractual merit of changes.

Ms. Zahn presented contingency fund trending information and explained that the data reflects trending of all costs, regardless of the likelihood of their being executed.

Mr. England reported that bids were received for construction of the Small Operator Area (SOA) and stated that a contract authorization would likely come forward for Commission action on October 4, 2011, due to the responsive bid exceeding the engineer's estimate by more than 10 percent. He reported on the status of final design by AT&T for cellular phone service and wireless Internet service at the RCF.

Mr. England stated that PCS Construction had been awarded the contract to install public seating for the customer seating area at the RCF. He noted that RCF tenants have completed their 100 percent design submissions and have selected their contractor for tenant improvements.

In response to Commissioner Albro, Mr. England stated that the \$351 million forecast to complete the RCF includes the \$16.8 million in revised suspension contract changes. He noted that the remaining contingency shortfall for the RCF of \$2.1 million would require drawing from the overall program contingency if all claims were executed and stated a request for Commission authorization would likely be proposed if the transfer were necessary. Mr. England added that a transfer from the unallocated program contingency would likely be requested due to challenges affecting the ORI project.

Mr. England reported that revenue from customer facility charges (CFCs) is \$1.6 million over estimate.

b. (00:45:41) 2012 Preliminary Capital Budget Briefing.

Presentation document(s): Commission agenda [memorandum](#) dated September 9, 2011, and computer slide [presentation](#) provided by Borgan Anderson, Aviation Finance and Budget Senior Manager; Boni Buringrud, Seaport Division Finance and Budget Manager; Peter Garlock, Chief Information Officer; Kim Albert, Information and Communications Technology Business Services Senior Manager; and Michael Tong, Corporate Budget Manager.

Presenter(s): Mr. Anderson, Ms. Buringrud, Mr. Tong, Ms. Albert, and Mr. Garlock.

Aviation

Mr. Anderson presented an update on the status of the airline industry, noting trends in high fuel costs and limited domestic growth and related changes in airline business models. He stated that industry analysis predicts growth for large hubs with limited regional competition and international connections, which are characteristics of Seattle-Tacoma International Airport.

Mr. Anderson commented on the resilience of the Airport's market and the strong position of the Airport's largest customer, Alaska Airlines. He noted the Airport's status of positive growth most recently forecasted at 3.8 percent for 2011.

Mr. Anderson reported that the Aviation division's proposed capital budget for 2012 aligns with the preliminary strategic goals arising from the Century Agenda process, including support for completion of the Airport's Master Plan update, use of technology to increase capacity, and mid-term FIS improvements.

In response to Commissioner Tarleton, Mr. Anderson stated that the Airport would be able to balance development-related disruptions with continued growth, based on past performance.

Mr. Anderson commented on Airline Realignment projects affecting the 2012 capital budget and provided data on Aviation capital spending since 2000 and a capital spending forecast through 2016, when reconstruction of the C16 Runway is anticipated. In response to Commissioner Albro, Mr. Anderson stated that the capital budget forecast through 2016 does not include spending for FIS improvements, which is drawn from a capital spending allowance fund.

Mr. Anderson described several projects that the Aviation division plans to propose for approval, organized by strategic goals. In response to Commissioner Bryant, Mr. Anderson and Mr. Reis commented on justification for investing in long-term backup power despite plans to propose eliminating temporary backup power in 2012. In response to Commissioner Albro, Mr. Reis explained that while most of the Airport's utility users are airline tenants incorporated into the utility rate base, some tenants are metered and purchase power from the Airport by kilowatt-hour (kWh). He stated it was doubtful that the Airport would be permitted to generate power for a premium for customers outside the Airport.

Commissioner Tarleton commented on the significance of reviewing specific capital projects for 2012 in light of changes proposed to the Commission's delegation of authority to the Chief Executive Officer via Resolution No. 3605, as amended. She noted that in the future, capital projects will be required to align with adopted strategic goals and that it would be important for Commissioners to establish whether the capital projects themselves reflect the strategic objectives appropriately. She stated that approval of the 2012 capital budget effectively represents preliminary approval of the direction of project planning for 2012.

Commissioner Bryant asked that the Commissioners identify the capital projects they believe require additional scrutiny so they could be addressed in greater detail prior to budget adoption.

Mr. Anderson presented annual capital budget amounts for 2011-2016 grouped by strategic drivers, such as safety and security, reduction of cost per enplanement (CPE), and customer service and noted new projects grouped by strategic drivers.

Commissioner Tarleton noted that the project grouping described as "Reduce Airline Costs" includes all of the Airport's major environmental infrastructure projects and asked that greater emphasis be placed on the fact that much of the work to reduce airline costs is in fact connected to development of environmental infrastructure.

In response to Commissioner Bryant, Mr. Anderson reported that the increase in funding for the Highline School District insulation program in 2014 is due to the district's control over when the insulation work can be done on various facilities.

Mr. Anderson concluded by presenting a summary of capital budget spending for 2011-2016 showing totals for allowance, prospective new business plan projects, rental car facility, and existing capital improvement projects. In response to Commissioner Bryant, Mr. Anderson confirmed that the FIS funding is represented in the allowance category.

Seaport

Ms. Buringrud outlined the capital budget for the Seaport division, noting the division's strategic objectives and capital budget review process. Ms. Buringrud noted that effective in 2010, the Seaport has been expected to be a financially self sustaining entity and that the division's funding capacity for projects in 2012 will be clearer once calculations are prepared for the Plan of Finance. She described the ranking of division projects into one of three ranked categories and provided a summary of the 2012 capital budget.

Ms. Buringrud presented capital projects by the line of business with which they are associated, noting whether the project status is committed or prospective. In response to Commissioner Albro, Ms. Buringrud stated that the project for a container support yard for Terminal 25 is expected to include purchase of property. Linda Styrk, Seaport Managing Director, commented on considerations affecting purchase of property for a container support yard.

Commissioner Tarleton commented on the need to identify how capital projects contribute to meeting strategic goals and related milestones. Ms. Styrk explained that the priority level assigned to each project reflects the level of predictability of the project need related to strategic planning.

In response to Commissioner Albro, Ms. Buringrud stated that the committed status of a project does not indicate that it has received Commission approval, but rather that it is seen as necessary to meet a business objective and has been well scoped. Commissioner Tarleton requested more information on which projects are already incurring expenses. Ms. Buringrud directed Commissioners to the Seaport Draft Capital Plan for the 2012 Budget, which was distributed to Commissioners separately and designates project status more specifically as committed – under contract, committed – authorized, committed – division approved, and business plan prospective.

Discussion followed related to developing a common vocabulary for all divisions to distinguish between projects that are business plan prospective, division recommended, Commission authorized, and under contract in order to clarify the degree to which projects have been obligated.

Mr. Yoshitani noted that he would pursue further standardization to the degree possible. He commented on the difference in the nature of projects proposed for the Airport versus the Seaport, which deals with projects that tend to be more discrete in their application to particular tenants.

Ms. Buringrud presented information on specific major expense projects funded by Seaport-generated net operating income. Commissioner Tarleton commented on the importance of tracking the cost of environmental initiatives funded by Seaport net operating income.

In response to Commissioner Creighton, Ralph Graves, Capital Development Division Managing Director, stated that the estimate of \$30.5 million to repair pile caps at Terminal 18 is a conservative estimate and that more detail would be available after conclusion of the Pile Cap Pilot Project.

In response to Commissioner Tarleton, Ms. Styrk elaborated on the cost containment aspect of the project to remove a crane at Terminal 46. Commissioner Tarleton commented on the significant expenses anticipated in the Seaport capital budget in the 2012-2016 timeframe.

Real Estate

Ms. Buringrud reported on the basis for many of the capital projects in the Real Estate capital budget proposal and noted that the Seaport Draft Capital Plan for the 2012 Budget distributed to Commissioners also contains information for the Real Estate division capital budget, which she stated is funded by the Tax Levy.

Ms. Buringrud stated that the overall project amounts for Real Estate had been reduced by \$12 million since its business plan presentation in August 2011, due in part to deferral and reclassification of some projects, and downward project cost revisions.

In response to Commissioner Tarleton, Joe McWilliams, Real Estate and Property Management Division Managing Director, commented that while the ultimate disposition of the net lockers at Fishermen's Terminal is undetermined, the project amounts reported reflect interim solutions that bring the lockers into legal compliance.

Ms. Buringrud presented Real Estate capital projects by location, noting whether the project status is committed or prospective. Commissioner Albro requested additional information on the revenue generated by the various facilities on the capital project list in order to compare net operating revenue with the cost of capital improvements for the facilities.

Discussion followed on the variables affecting the performance of the Shilshole Bay Marina relative to its capital expenses and the role of capital improvements in mitigating the risk of losing moorage to other marinas.

In response to Commissioner Tarleton, Ms. Buringrud stated that staff is not aware of any effects on the reported capital projects by proposed changes to the City of Seattle's Shoreline Master Plan update.

In response to Commissioner Bryant, Ms. Buringrud reported that all of the 2012 Real Estate capital expenses in 2012 would be funded by the Tax Levy.

Corporate and Capital Development

Ms. Albert presented a report on Corporate and Capital Development Divisions capital budget proposals for 2012, which have enterprisewide implications. In response to Commissioner Tarleton, Ms. Albert estimated that 95 percent of the capital projects for 2011 have been authorized and that all of the 2012 projects except for the identification badge system have received Commission authorization and have had at least partial funds expended.

In response to Commissioner Albro's question about how to determine the value of technology and control technology spending by setting a target technology budget, Ms. Albert commented on the importance of Information and Communications Technology (ICT) projects to the Port's lines of business, particularly at the Airport, and noted that those projects are largely driven by the needs of the lines of business.

Commissioner Tarleton commented that target technology budgets are approached in some enterprises by assigning a percentage value for technology proportionate to annual revenue. Mr. Garlock noted that ICT's investment in common use infrastructure has contributed to the control of its operating expenses over time. In response to Commissioner Albro, Mr. Garlock commented that ICT capital spending for Corporate and enterprise-wide projects constitutes approximately 60 percent of the department's total capital spending.

Commissioner Albro commented on the importance of clearly communicating the organizational benefits of technology investments. Mr. Yoshitani described the composition and function of the ICT Governance Board in vetting technology proposals and commented that ICT expenses are already capped as a percentage of revenue and operating expenses. He also noted that staff is preparing a proposal for consideration of the Audit Committee to procure third-party review of ICT spending.

Portwide Overview

Mr. Tong provided a summary of the overall 2012 capital budget, noting a total budget, including business plan prospective project spending, of \$404.6 million. Commissioner Bryant commented that the total was almost double that for 2010.

Mr. Tong presented totals for a five-year capital plan of \$1.5 billion, categorized by division, and including \$971.2 million in business plan prospective spending.

Commissioner Albro asked for additional information about how the capital spending plan is being worked into the budget planning process in order to determine when to provide Commission directives about the appropriateness of particular projects or spending plans. Discussion ensued on the merits of scheduling additional budget briefings for the Commission.

Mr. Tong presented actual spending totals for capital projects for 2001-2011. Commissioner Bryant noted that adding the budgeted total for 2012 would demonstrate a significant increase in spending.

There was a brief discussion of the challenges involved in providing the level of detail and content focus desired by the Commission in the time available and the possibility of forming a Commission budget committee or developing specific Commission decision drivers requiring additional detail.

8. NEW BUSINESS

None.

9. POLICY ROUNDTABLE

None.

10. ADJOURNMENT

There being no further business, the regular meeting was adjourned at 4:29 p.m.

John Creighton

Secretary

Minutes approved: November 22, 2011.