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APPROVED MINUTES
COMMISSION REGULAR MEETING OCTOBER 4, 2011

The Port of Seattle Commission met in a regular meeting Tuesday, October 4, 2011, at Port of Seattle Headquarters, Commission Chambers, 2711 Alaskan Way, Seattle, Washington. Commissioners Albro, Creighton, Holland, and Tarleton were present. Commissioner Bryant was excused in order to attend to other Port business.

1. CALL TO ORDER

The regular meeting was called to order at 1:03 p.m. by Rob Holland, Commission Vice President.

2. EXECUTIVE SESSION pursuant to RCW 42.30.110

None.

PLEDGE OF ALLEGIANCE

3. APPROVAL OF MINUTES

None.

4. SPECIAL ORDERS OF BUSINESS

a. (00:01:25) The Port Centennial 1911-2011.

Presentation document(s): Commission agenda memorandum dated September 27, 2011, and computer slide presentation provided by Jane Kilburn, Public Affairs Director.

Commissioner Holland presented the Port Centennial moment, which highlighted the origins of the Seattle-Tacoma International Airport. He commented on the early runway configuration, early cargo carriers, and international passenger service, and noted that in 2010, 31.5 million passengers flew through the Airport. He stated that there are 14,000 people employed at the

Airport, which has an economic impact of $13.2 billion in business revenue. The Airport generates over $412 million in state and local taxes and $439 million in federal aviation-specific tax revenue.

b. (00:03:44) Communication Awards for the Centennial Map and Timeline and the Centennial Documentary Film.

Presentation document(s): Commission agenda memorandum dated September 28, 2011, and computer slide presentation provided by Patricia Akiyama, Public Affairs Director; Jane Kilburn, International Tourism Director; and Nancy Blanton, Business and Corporate Communications Manager.

Presenter(s): Ms. Blanton.

Ms. Blanton reported on Centennial projects by the Public Affairs department that have won national recognition, including the Port's *Centennial Map and Timeline* website and the 30-minute documentary *Voices of the Port*. She stated that the *Centennial Map and Timeline* website has received an Award of Excellence from the American Association of Port Authorities (AAPA), a Clarion Award from the National Association for Women in Communications, and an Award of Excellence from the International Academy of Visual Arts. The *Voices of the Port* documentary has been awarded the AAPA's Award of Excellence, receiving a perfect score.

c. (00:08:10) American Association of Port Authorities Annual Convention.

Presentation document(s): Commission agenda memorandum dated September 22, 2011, computer slide presentation, and video provided by Jane Kilburn, Tourism Development Director.

Presenter(s): Ms. Kilburn.

Ms. Kilburn commented on the recently completed 100th Annual AAPA Convention, hosted by the Port of Seattle. She described the convention activities and the extensive planning that contributed to the success of the event. Ms. Kilburn expressed her appreciation for members of the AAPA Convention Committee. She reported that over 50 Port staff volunteers assisted with the convention, which was attended by 792 participants from 65 U.S. and 25 foreign ports, generating approximately $3 million in regional visitor spending. Ms. Kilburn noted that $461,500 was raised during the convention, including contributions from 14 Washington sister ports of up to $15,000 each to help sponsor Washington Ports Night. Ms. Kilburn presented photographs from the convention and a six-minute welcoming video produced for the event.

Mr. Yoshitani acknowledged Ms. Kilburn's hard work and commented that the convention was the best AAPA convention he had attended in 25 years. He noted Ms. Kilburn's role in organizing a September 11 remembrance event with the assistance of the Port's Police and Fire Departments.

5. (00:23:00) UNANIMOUS CONSENT CALENDAR

a. Authorization to increase the budget by $80,000 to meet the added costs of the Century Agenda work program, including additional outreach program, extended timeline into

2012, and added roundtables, from original program budget approved March 8, 2011. With this authorization, the revised program budget is $225,000.

Request document(s): Commission agenda memorandum dated September 27, 2011, provided by Geri Poor, Regional Transportation Manager, and Tom Barnard, Research and Policy Analyst.

b. Authorization for the Chief Executive Officer to increase the project budget by $740,675 and advertise and execute a construction contract for the common use lounge at the South Satellite at the Seattle-Tacoma International Airport for a total project cost of $1,061,000.

Request document(s): Commission agenda memorandum dated September 27, 2011, and exhibit provided by Nick Harrison, Airport Operations Senior Manager; James Schone, Aviation Business Development Director; and Wayne Grotheer, Aviation Project Management Group Director.

Motion for approval of consent items 5a-5b – Creighton

Second – Albro

Motion carried by the following vote:

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

Absent for the vote: Bryant

6. DIVISION, CORPORATE, AND COMMISSION ACTION ITEMS

a. (00:23:45) Approval for Century Agenda Committee amended preliminary goals arising from the "Achieving our Environmental Goals" panel.

Request document(s): Commission agenda memorandum dated September 22, 2011, provided by Tom Barnard, Research and Policy Analyst, and Geri Poor, Regional Transportation Manager.

Presenter(s): Mr. Barnard.

Mr. Barnard presented the preliminary Century Agenda environmental goals, as amended on September 12, 2011, which now read as follows:

Be the cleanest, greenest, most energy efficient port in the United States through the following policies:

- **Reduce air pollutant emissions by 50 percent from 2005 levels.**
- **Lead our industry's greenhouse gas (GHG) reduction strategies by reducing carbon emissions from all Port operations by 50 percent from 2005 levels and reducing aircraft-related GHG emissions at Sea-Tac by 25 percent.**
- **Meet future growth in energy usage through conservation and renewable sources.**
- **Restore, create, and enhance 40 additional acres of habitat in the Green/Duwamish watershed and Elliott Bay.**
- **Prevent sprawl in less developed areas of Puget Sound by anchoring our region's urban industrial land use.**

- **Ensure all stormwater leaving Port-operated facilities will meet or exceed agency requirements and create partnerships that lead our industry in stormwater quality improvements.**

Commissioner Albro acknowledged the work of staff supporting the Century Agenda process and commented on the relationship between the environmental goals and other goals established to contribute to economic development strategies. He opined that the environmental goals were as ambitious as the preliminary economic goals and noted their focus on reduction of air pollutants and GHG emissions, energy conservation, habitat restoration, and prevention of industrial sprawl. He commented on the importance of working collaboratively with other agencies, the Port's customers, and the regional business community to achieve these goals.

Commissioner Tarleton remarked on the interconnectedness of the various goals and the challenge of maintaining an urban port in a complex setting.

Commissioner Holland commented on the importance of communicating the Port's environmental efforts to the community.

Motion for approval of item 6a – Creighton

Second – Tarleton

Motion carried by the following vote:

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

Absent for the vote: Bryant

Mr. Barnard reported on the September 12, 2011, Century Agenda panel on "Achieving our Community Values" noting there was a robust discussion representing the interests of workforce development, neighborhood advocacy, labor, education, and small business. Discussion included the Port's positive and negative impacts on neighboring communities.

Mr. Barnard explained that 25-year goals arising from this panel were still under development for future Commission action and announced there would be another Century Agenda panel discussion on October 11, 2011, on the topic of real estate. Commissioner Albro added that the final Century Agenda panel discussion is scheduled for November 8, 2011, on the topic of funding the strategic goals, and noted that environmental five-year milestones would be presented to the Commission on November 1, 2011.

b. **(00:41:45) Authorization for the Chief Executive Officer to execute a contract with the low responsive and responsible bidder for the Small Operator Area (SOA) Ready Return Area Build-Out Project in the amount of $512,780. Sufficient funds for this contract were previously authorized under the May 13, 2008, Commission authorization to proceed with construction of the Rental Car Facility. The SOA Ready Return Build-Out Project was subsequently authorized for advertisement and award at the May 10, 2011, Commission meeting. Commission action is required at this time by Resolution**

No. 3605, as amended, Section 4.2.3.4. because the bids were greater than 10 percent over the engineer's estimate (CIP #C00266).

Request document(s): Commission agenda memorandum dated September 23, 2011, provided by Ralph Graves, Capital Development Division Director, and George England, Project Management Group Program Leader.

Presenter(s): Mr. England.

Mr. England reported that all bids for the build-out of the Ready Return Area of the Rental Car Facility Small Operator Area exceeded the engineer's estimate of $304,274. He stated the low bid exceeded the estimate by 68.5 percent; therefore, in accordance with Resolution No. 3605, as amended, the proposed request is to award the contract to M.D. Moore Company Inc. Mr. England explained that staff had not provided the bid estimator an opportunity to review and revise the bid estimate after the decision was made not to use Port Construction Services for the work. In response to Commissioner Tarleton, Mr. England confirmed that the estimator normally would have access to the final bid documents, and that this case was an exception.

Mr. England noted several specific project components and project risk factors that contributed to the higher bid amounts and noted that project savings elsewhere in the Rental Car Facility project would offset the shortfall of approximately $100,000.

Motion for approval of Item 6b – Albro

Second – Creighton

Motion carried by the following vote:

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

Absent for the vote: Bryant

c. (00:49:40) Authorization for the Chief Executive Officer to execute the Second Amendment for a seven-year extension to the License Agreement for the Wireless Communication Access System with New Cingular Wireless PCS, LLC (AT&T), formerly AT&T Mobility, for installation of a cellular telephone system in the Rental Car Facility and the C-1 Building at Seattle-Tacoma International Airport, as well as an upgrade to the current Main Terminal cellular system. No investment will be required by the Port.

Request document(s): Commission agenda memorandum dated September 26, 2011, exhibit A, exhibit B, and exhibit C provided by James Schone, Aviation Business Development Director, and Jeff Wolf, Aviation Business Development and Analysis Manager.

Presenter(s): Mr. Wolf.

Mr. Wolf described the importance of cellular service to airline customers and explained the improvement to overall service represented by the installation in 2004 of a dedicated distributed antenna system within the Terminal by AT&T. He explained that the Port's agreement, which follows the "neutral host" model common in the wireless industry, gives all carriers equal access to the cellular network, for which all carriers contribute a pro rata share of the system cost. Mr. Wolf noted that the agreement was extended in 2009 and is scheduled to expire at the end of 2014.

Mr. Wolf commented that the proposed contract amendment would have the benefit of providing for required cellular service at the Rental Car Facility, upgrading the Terminal's service to fourth generation (4G) technology, and enhancing coverage for the C1 baggage handling facility.

Mr. Wolf described the amendment as a seven-year extension of the 2009 agreement, making it effectively a five-year extension with a five-year renewal option.

In response to Commissioner Albro, Mr. Wolf commented on the use of the neutral host system as an industry standard and noted that different companies express interest in serving as the lead carrier based on the particular market.

Commissioner Tarleton commented on the importance of providing free wireless service at the Airport and noted that the rate of change in the wireless industry is outdistancing the conventional long-term relationships common between public entities and service providers in the past. In response to Commissioner Tarleton's inquiry about the adaptability of the wireless contract for expanding air cargo facilities, Mr. Wolf noted that the agreement maintains flexibility, depending on the specific needs that arise.

In response to Commissioner Albro, Mr. Wolf clarified that wireless Internet capability is maintained and managed by Port Information and Communications Technology staff, and the agreement in the proposal applies to cellular telephone service.

Relative to the rapid changes in cellular and wireless technology, Mr. Yoshitani noted that the proposal reflected negotiations by Port staff in which AT&T had advocated for a longer term of 10 years with a 10-year extension option.

Motion for approval of Item 6c – Tarleton

Second – Creighton

Motion carried by the following vote:

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

Absent for the vote: Bryant

The regular meeting was recessed at 2:05 p.m. and reconvened at 2:07 p.m., chaired by Commissioner Holland.

7. <u>STAFF BRIEFINGS</u>

a. (01:00:50) 2012 Preliminary Operating Budget Briefing.

Presentation document(s): Commission agenda memorandum dated September 16, 2011, and computer slide presentation provided by Dan Thomas, Chief Financial and Administrative Officer; Ralph Graves, Capital Development Division Managing Director; Borgan Anderson, Aviation

Division Senior Manager; Boni Buringrud, Seaport Division Finance and Budget Manager; and Michael Tong, Corporate Budget Manager.

Presenter(s): Mr. Thomas; Mark Reis, Aviation Managing Director; Ms. Buringrud; Mr. Graves; and Mr. Tong.

Mr. Thomas presented a review of the budget preparation process since August 2011 and noted that the preliminary operating budget presented today takes into account direction from the Commission to date. He pointed out consideration later in October of the Draft Plan of Finance, and November meetings for first and second reading and final adoption of the 2012 budget. Mr. Thomas stated staff is interested in the Commission's guidance on the preliminary operating budget and any requests for additional analysis or changes; he indicated it is still possible to schedule additional meetings if the Commission deemed it necessary.

Aviation

Mr. Reis presented the preliminary Aviation division operating budget for 2012. He noted the resiliency of the market at the Airport despite economic trends elsewhere and indicated the need to resume planning for future growth and catching up on an unsustainable level of cuts imposed previously. In response to Commissioner Tarleton, Mr. Reis stated that the growth assumptions projected for 2012-2016 represent a faster recovery than the growth levels following the airline downturn after the September 11, 2001, attacks.

Mr. Reis presented the financial goals of the Aviation division and described the estimation process for determining cost per enplanement (CPE), which is the primary measure for the Airport's cost-recovery formula. He said CPE for 2012 is estimated at $13.43.

In response to Commissioner Albro, Mr. Reis explained that costs associated with the airline realignment project are responsible for $8.2 million in the 2012 operating budget due to the accelerated nature of the project timetable. He noted the 2013 amount would likely be $14 million.

Mr. Reis described the effect of reduced rental-car revenue and increased expenditures for off-Airport land development on the Airport's net operating income (NOI) in 2012 as a temporary step back while the Aviation division prepares for future growth. He outlined the major budget drivers affecting increased expenses and revenues. Commissioner Tarleton noted that the rental car consortium had already endorsed increases to the customer facility charge, which Mr. Reis explained would increase from $5 to $6 in 2012 related to construction of the consolidated rental car facility (RCF).

Mr. Reis reported on factors affecting increase in payroll costs and noted that all proposed budget increases were in support of the Airport's strategic goals. He pointed out that requests for new full-time equivalent (FTE) positions other than for the RCF represented only four more FTEs than were accounted for in the Airport's 2009 budget.

In response to Commissioner Tarleton, Mr. Reis explained the regulation of airfield activity by Federal Aviation Administration (FAA) rules found in Title 14 of the Code of Federal Regulations

(CFR) Part 139. The level of expertise and familiarity with these regulations required of airfield workers results in the Airport's use of dedicated FTEs for specialized maintenance in lieu of using private contractors.

Various new budget requests related to specific projects were outlined, as were requests that were not included in the budget proposal, including a $2.8 million request for temporary backup power generation. Mr. Reis presented an expense summary for the Aviation division by department and by account. He also presented information showing that the reduction of Maintenance department FTEs in 2009, when compared with growth in Airport assets, are not sustainable.

Commissioner Albro stated he had reservations about FTE growth and about comparing the numbers to 2009 FTE levels. Commissioner Holland commented on the public benefit in allocating the right resources for FTEs.

Commissioner Albro requested addition information about the relationship of concessions revenues per enplanement and concessions sales per enplanement as well as their relationship to gross profit margins. Commissioner Creighton asked for additional information on parking garage promotions to offset the reduced revenue when rental car companies move to the RCF.

Mr. Reis presented a summary of increases in aeronautical capital costs and debt service and drivers affecting CPE increases. He presented a summary of division revenues and expenses, including key measures for 2012, such as nonaeronautical net operating income, cash flow after debt service, CPE, and debt service coverage.

Key nonoperating revenues and a financial forecast for 2012-2016 were presented. Regarding increased Corporate and Capital Development division expenses, Mr. Thomas pointed out that comparisons to 2009 should note that there were significant budget cut-backs in 2009. He also noted the share of the Aviation division's Corporate expense allocation changes based on variables such as Internal Audit costs, which are proportional. He noted that some divisions' Corporate expense allocations have dropped.

In response to Commissioner Albro, Mr. Thomas noted that increases in Police expenses include new FTEs related to opening the RCF and communications support. Mr. Reis added that a significant collective bargaining agreement settlement is also incorporated in increased Police expenses.

In conclusion, Mr. Reis outlined various expense risks and opportunities, including general economic uncertainty, parking competition, environmental costs, RCF opening schedule, pending labor settlements, winter weather conditions, planned parking promotions, strength of Terminal concessions business, potential new international service, and stormwater management considerations.

Public comment was received from the following individuals:

- David J. Anderson, Regional Manager for Airport Affairs, U.S. Airways Inc. Mr. Anderson commented on the Airport's proposed 2012 operating budget, which he said represents a 10 percent increase to landing fees and terminal rents for U.S. Airways and

Virgin America Inc. He noted that the collective U.S. airline industry net profit was only 1.9 percent in 2010 and that the industry broke even in 2011. Mr. Anderson noted that between 2001 and 2009, the industry suffered a combined loss of $65 billion and cautioned against assuming a trend in airline profitability and adjustment of the airlines to higher fuel costs. Mr. Anderson submitted his comments in written form. The document is, by reference, made a part of these minutes, is marked Exhibit A, and is available for inspection in Port offices.

- Karen Gruen, Managing Director of Corporate Real Estate, Alaska Airlines and Horizon Air. Ms. Gruen commented on the 2012 Aviation operating budget, noting that the 2012 proposed budget is 17 percent greater than the 2011 proposed budget and 29 percent greater than the 2010 actual budget results. She commented that the budget proposal is out of proportion to the economic challenges still facing airlines and urged the Port to work from a contingency plan that assumes economic downturn rather than anticipating increased airline spending. Ms. Gruen submitted her comments in written form. The document is, by reference, made a part of these minutes, is marked Exhibit B, and is available for inspection in Port offices.

Seaport

Ms. Buringrud presented the preliminary Seaport division operating budget for 2012. She noted key revenue assumptions, including forecasted volumes in cargo, cruise activity, and grain shipment, and increases in the consumer price index. Ms. Buringrud mentioned factors affecting Seaport expenses, including utility rate increases. In response to Commissioner Albro, Ms. Buringrud explained that approximately 88 percent of Seaport utility costs are borne by tenants.

Ms. Buringrud presented revenue and expense data for container cargo, grain shipment, industrial properties, cruise and maritime operations, and other Seaport business groups. Commissioner Albro commented on his preference that budgeted numbers for 2012 be compared to forecasted actual numbers for 2011, rather than budgeted numbers for 2011. Commissioner Tarleton noted the usefulness of comparing 2012 proposed numbers to both 2011 forecasted actual amounts and 2011 budgeted amounts.

Ms. Buringrud provided budget expense summaries comparing 2011 budgeted numbers to 2012 proposed budget numbers for salaries, benefits, utilities, business and occupations (B&O) tax, and various Seaport initiatives. She commented on factors affecting expense numbers, including elimination of the Deputy Seaport Director position, increased utility cost, recent accounting changes, and new project costs. Commissioner Albro commented on the relatively low 4.2 percent budgeted increase in gross utility expenses, compared to generally high utility rate increases.

Ms. Buringrud summarized budgeted costs for key non-operating expenses, including environmental initiatives. In response to Commissioner Holland's question about the effect of the International Maritime Organization's (IMO) initiatives on the need to continue the Port's At-Berth Clean Fuels (ABC Fuels) initiative, Linda Styrk, Seaport Division Director, commented that the proportion of ocean-going vessels' contribution to Seaport particulate emissions warrants continuation of the ABC Fuels program at this time. In response to Commissioner Creighton, Ms. Styrk reported that new IMO standards become effective in mid-2012. She noted the importance of being able to verify compliance with emissions standards, which the ABC Fuels program currently provides. Ms. Styrk stressed that there are no funds in the Seaport 2012 budget to provide incentives for mandated requirements.

Commissioner Holland requested additional information on the cargo handling initiative referenced in the Seaport operating budget presentation.

Ms. Buringrud presented a summary of Seaport FTEs, which are reduced compared with the 2011 budget proposal. She noted that Seaport FTEs have been dropping steadily since the 2008 budget.

Ms. Buringrud provided a Seaport operating budget summary inclusive of direct charges and allocations from the Corporate, Capital Development (CDD), and other divisions, with additional summaries for the various Seaport lines of business. In response to Commissioner Albro's question about the increase in 2012 Corporate division expenses from the Seaport grain budget, Ms. Buringrud commented that expense allocations rose considerably in 2011 due to accounting changes affecting operating versus capital expenses in CDD, which she said accounts for some of the increase. She also noted that the relative contribution from the grain shipment line of business to Corporate, CDD, and Police expenses has generally remained steady compared with previous years. Commissioner Albro emphasized the importance for a business group's net operating income to increase from year to year.

Ms. Buringrud concluded by mentioning the risks inherent in the 2012 Seaport operating budget, including general economic uncertainty, competitive pressures, traffic congestion, unexpected facility repairs, and environmental remediation liabilities.

Real Estate

Between 4:02 p.m. and 4:16 p.m., the meeting was chaired by Commission Secretary Creighton.

Ms. Buringrud presented the preliminary Real Estate division operating budget for 2012, noting key budget assumptions for occupancy rates at various facilities operated by the Real Estate division, transfer of Eastside Rail Corridor ownership, and execution of deferred maintenance. She presented projected revenues and expenses by group, baseline maintenance expenses, and a listing of 2012 deferred maintenance projects and estimated a total revenue increase of 6.1 percent compared to 2011 budgeted amounts.

In response to Commissioner Albro, Ms. Buringrud attributed the positive revenue performance to third-party revenue, especially from the Bell Harbor Conference and Events Center. In response to Commissioner Tarleton, Ms. Buringrud explained that the $17.2 million in 2012 maintenance expenses includes all gross maintenance expenses in the Real Estate division, including Real Estate deferred maintenance and maintenance expenses allocated to the Seaport division.

In response to Commissioner Albro, Joe McWilliams, Managing Director, Real Estate Division, explained the rationale behind investing in real estate maintenance despite the anticipated weak performance of the real estate market. Mr. Yoshitani noted that, in lieu of increased return in a strong real estate market, there is incremental value in mitigating diminished return through wise maintenance investment during a weak real estate market.

Commissioner Tarleton commented on the challenges of obtaining returns on real estate investment and the importance of retaining the Port's tenants.

Ms. Buringrud presented Real Estate expenses by group and category, a summary of baseline maintenance work, and a listing of 2012 deferred maintenance projects. In response to Commissioner Albro's question about increases to purchasing and safety training programs, Mr. McWilliams commented on recent code changes requiring training of maintenance staff and Ms. Buringrud noted that purchasing training is needed due to changes to purchasing requirements.

Commissioner Albro requested additional information regarding further reduction of the 2012 deferred maintenance project budget by $1 million in consideration of long-term savings and near-term expenditure discipline.

Ms. Buringrud provided a summary of Real Estate FTEs and an overall summary of the 2012 Real Estate operating budget. She concluded by listing risks associated with the 2012 Real Estate operating budget, including potential higher vacancies in commercial properties and recreational marinas, continued ownership of the Eastside Rail Corridor, costs of deferred maintenance, outside legal costs, and tenant improvement allowances.

Capital Development

Mr. Graves reported that the Capital Development division operating budget is driven by the work occurring in the business divisions. He noted a reduction in FTEs, despite a 3.7 percent increase in salaries and benefit costs, and a reduction in the division's total operating budget before capital changes and transfers. He also commented on the reduction of capital charges in CDD reflected by increased CDD allocations in the business divisions.

Mr. Graves presented operating expenses by department, noting the variation in expenses charged to capital projects for different departments. He also noted a drop in the amount budgeted for on-site consultants for 2012, based on conclusion of consultant services for the RCF and East Marginal Way Grade Separation projects.

Mr. Graves concluded by provided a list of priority CDD initiatives aimed at process improvement. Mr. Thomas noted the 2011 budget reflected a policy change in accounting for capital charges that shifted approximately $5 million from capital to expense charges.

Corporate

Mr. Thomas presented the preliminary Corporate division operating budget for 2012, noting key budget drivers, including baseline payroll and contractual increases, opening of the new RCF, Century Agenda expenses, Audit Committee and Internal Audit department initiatives, and other enterprise-wide initiatives funded within the Corporate division. He stated the proposed Corporate budget of $76.6 million reflects a 2.2 percent overall increase compared to the 2011 budget and that there is a decline in Corporate costs as a percent of total operating revenues and expenses.

Mr. Thomas presented a summary of Corporate expenses and outlined about $1.2 million in new budget proposals, of which some are one-time items and others ongoing. In response to Commissioner Albro, Mr. Tong reported that the salaries and benefits amounts presented apply just to the Corporate division, and include 3.4 new FTEs, in addition to a net increase of 2.2 FTEs added since the 2011 approved budget, for a total of 453.2 FTEs proposed for 2012.

Mr. Thomas noted costs associated with the RCF, including a new FTE for a police officer and increased insurance costs. Several new one-time expenditures were described, as were new ongoing requests, including new funding for an apprenticeship program, police communications support staffing, and risk management staffing. Mr. Thomas reported that the total for new budget proposals of $1.269 million is in contrast to original budget requests considered totaling $3 million.

Commissioner Holland requested additional review of costs associated with the proposed 2012 Port leadership conference.

Mr. Tong presented a summary of the 2012 Corporate division budget categorized by department, noting major budget changes by account compared with the 2011 budget. Mr. Tong stated that the largest departmental cost increases were for the Information and Communications Technology (ICT) and Police departments. He described the factors affecting major cost increases, particularly for payroll, travel, and training costs.

Commissioner Albro commented that a comparison of the 2011 increases to salaries, wages, and benefits of approximately $1.8 million divided by the baseline number of 2011 FTEs shows an average increase per employee of about $4,000, and stated that was a significant increase that should be trimmed.

Mr. Thomas presented a cost analysis for the Corporate division showing Corporate costs as a percentage of revenues and expenses by year and noted slight decreases in both percentages for 2012. In response to Commissioner Albro, Mr. Yoshitani noted that viewing Corporate costs as a percentage of expenses should alleviate concerns that the percentage of Corporate costs to revenue is skewed by an Aviation revenue increase of about $30 million. Mr. Thomas added that about 48 percent of Corporate costs are charged to the aeronautical rate base, and so are appropriately factored into the percentage formula for Corporate expenses.

Mr. Thomas concluded by outlining risks associated with the 2012 Corporate division budget proposal, including pending labor settlements, insurance renewal premiums, unanticipated litigation and claims, and other unexpected events.

<u>Portwide Overview</u>

Mr. Thomas outlined key payroll assumptions affecting the Portwide 2012 operating budget, including a three percent average merit increase for non-represented staff, a 2.2 percent increase in the Port-sponsored medical plan, 2012 Public Employees Retirement System rate increases, and cost-of-living and step increases for represented staff based on bargaining agreements. Commissioner Albro commented on the importance of scaling back assumptions for non-cost of living pay increases when negotiating labor agreements.

Mr. Thomas presented information comparing merit increases and pay range adjustments for represented and non-represented staff for 2010 and 2011. He commented on Port trends toward avoiding pay adjustments driven by consumer price index increases and encouraging more employee contribution to medical benefits. In response to Commissioner Tarleton, Mr. Yoshitani stated that results from the workplace responsibility survey may indicate Port employees' sentiment regarding the fairness of their portion of medical benefit cost.

Mr. Tong presented a summary of the overall 2012 preliminary budget, noting that total operating revenues are 5.5 percent higher than budgeted for 2011, total operating expenses are 9.4 percent higher than in the 2011 budget, and net operating income is 0.2 percent higher than for 2011. Commissioner Albro requested information about actual net operating income for 2011.

Mr. Tong provided a comprehensive summary of revenues and expenses, noting lower interest income, reclassification of Airport fuel hydrant revenue, and a 22.6 percent increase in net assets. Commissioner Albro requested additional information about the Aviation portion of the $81.6 million increase in net assets.

Mr. Thomas reported that a current revenue assumption is that the tax levy will remain at $73.5 million and stated there would be a presentation on the plan of finance on October 25, 2011.

Mr. Tong described options for potential contingency cuts, including a delay in hiring, cuts to travel and training expenses, cuts to new budget requests, and staffing furloughs, all of which would represent 6.8 percent of the total 2012 budget. Mr. Yoshitani added that such contingency cuts would not be sustainable, likening them to 2009 budget cuts, and noted that expense growth since 2009 demonstrates the unsustainable nature of these kinds of budget cuts.

Mr. Tong concluded by presenting a summary of Portwide FTEs, noting the total proposed FTEs for 2012 is 1,811.6. Commissioner Albro commented that he is concerned about FTE growth in the Aviation division and stated he favored trimming additional funds from Airport and Real Estate operating expenses. Mr. Reis noted 2012 airline realignment costs are twice the cost of new FTEs in Aviation and the cost of completing deferred Airport maintenance. Commissioner Albro commented on the distinction between one-time expenses, such as the realignment, versus long-term expenses, such as adding FTEs. Commissioner Tarleton noted that many of the new FTEs in the Aviation division are connected to the new RCF.

b. (04:49:45) 2012 Preliminary Capital Budget Briefing.

Presentation document(s): Commission agenda memorandum dated September 28, 2011, and computer slide presentation provided by Borgan Anderson, Aviation Division Senior Manager; Boni Buringrud, Seaport Division Finance and Budget Manager; Peter Garlock, Chief Information Officer; Kim Albert, Information and Communications Technology Business Sevices Senior Manager; and Michael Tong, Corporate Budget Manager.

At the recommendation of Commissioner Tarleton, the presentation documents for agenda item 7b were accepted by the Commission for review and individual consultation without additional presentation by staff.

Mr. Thomas noted that approval of the capital budget earmarks funding for the projects described in it, and marks those projects for inclusion in the funding plan.

(04:51:00) Preliminary Briefing on Revenue Refunding Bonds.

Dan Thomas, Chief Financial and Administrative Officer, reported that on October 11, 2011, the Commission would be asked to approve first reading of a resolution authorizing issuance and sale of revenue refunding bonds in an amount estimated at $140 million. He stated there are two bond series to be refunded, including approximately $124 million in Terminal 18 special facility bonds from 1999 and $11 million in previously refunded 1998 subordinate lien revenue bonds originally issued to fund construction at Pier 69 in 1993.

Mr. Thomas explained that the special facility bonds were secured only by lease payments, which is no longer considered a cost-effective model due to current risk premiums, and would be refunded as first lien revenue bonds, resulting in debt service savings estimated at $20 million or more in present value. He stated the debt service savings for the subordinate lien revenue bonds is conservatively estimated at $600,000 in present value.

8. NEW BUSINESS

None.

9. POLICY ROUNDTABLE

None.

10. ADJOURNMENT

There being no further business, the regular meeting was adjourned at 6:00 p.m.

John Creighton
Secretary
Minutes approved: December 6, 2011.