



The Municipal League of King County  
810 Third Avenue, Suite 224  
Seattle, WA 98104

Exhibit	"D"
Port Commission	Regular
Meeting of	Jan 11 2011

January 11, 2011

Port Commissioners  
Port of Seattle  
Pier 69  
Seattle, WA

### Public Comment on State Auditor's Performance Audit of December 13, 2010

The Municipal League of King County sponsored creation of the Port of Seattle nearly 100 years ago, and we have periodically commented on its operations during the ensuing years. Our most recent Port of Seattle Report in 2009 included recommendations regarding specific fair market value assessments of Real Estate assets which have been ignored by the Port. More recently, the State Auditor's Office issued its December 13, 2010 report recommending that the Commission establish operating procedures and a comprehensive strategy for each real estate asset to ensure prospective transactions are evaluated against those strategies.

We are submitting these remarks as public comments suggesting that the Port wholeheartedly adopt the Auditor's recommendations. In addition, the Port should adopt the 2009 Municipal League recommendation that the Port implement its long-ignored real estate evaluation process, also recommended by the port-sponsored Harbor Development Strategy in 2001, and adopted by the Port Commission on June 26, 2001. (Attachment A).

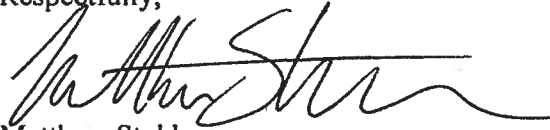
We believe that the utilization of the 2001 process would enhance transparency and accountability by requiring the Port to establish plans for each of its developable real estate properties, and their respective fair market values. This would provide predication for determination of the rates of return obtained, particularly for non-core assets.

The Real Estate Division currently requires substantial subsidies from the tax levy. We have been told that the Division has approximately 300 acres of undeveloped property. However, we have not been able to obtain information about the fair market values of these real estate assets, returns on these assets, or plans for developing or disposing of under-utilized or vacant properties.

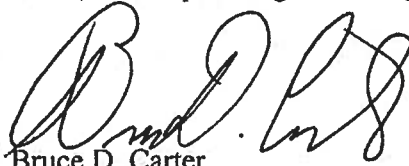
The undeveloped properties are triple losers for the public because the properties provide no return on the Port's investment, they support no jobs in terms of economic development, and they generate no state or local tax revenues or payments in lieu of tax payments. Some of these, such as the multi-million dollar uplands of Terminal 91, have been held vacant for many years and it is not clear whether there are any plans to proceed

with any development. We believe the Port should develop a plan for periodic review of the fair market values, development plans, and utilization of each of the various developable assets in the real estate portfolio.

Respectfully,

A handwritten signature in black ink, appearing to read "Matthew Stubbs". The signature is fluid and cursive, with a long horizontal stroke at the end.

Matthew Stubbs  
Chair, Municipal League of King County

A handwritten signature in black ink, appearing to read "Bruce D. Carter". The signature is cursive and somewhat stylized, with a large initial "B" and "C".

Bruce D. Carter  
Chair, Municipal League Port Committee

## **Attachment A**

### **Portfolio Management and Analysis Process**

(from Port of Seattle Harbor Development Strategy 21,  
adopted by Commission June 26, 2001)

#### **Purpose**

- To inform good decision making about Port properties by providing and analyzing information on business factors and the real estate context.
- A management tool to identify and highlight tradeoffs and opportunity costs among business options and real estate values.

#### **Principles**

- All properties should be included.
- Portfolio management reviews should be presented to the Port Commission annually, as part of the budget process.
- Properties should be evaluated on a rolling review cycle, with every property assessed at least every 5 years.
- The frequency and depth of review should be determined by business/property characteristics

#### **Use longer cycle (up to 5 years) for:**

- Stable businesses with long-term leases
- Fully developed, stable real estate assets

These properties could be evaluated using a "short form" format, recognizing that such a "short form" analysis may turn up issues that would require subsequent "long form" analysis.

#### **Use shorter cycle (1 to 2 years) for:**

- Underperforming businesses
- Properties with expiring leases
- Properties that are vacant or about to become vacant
- Critical properties in flux should be put on "watch list" and reviewed annually

These properties would require a "long form" analysis, i.e. a more detailed evaluation.

#### **Evaluation Process**

##### **1. Evaluate Current Business Prospects & Performance**

###### **Business Outlook**

- Relationship to core business - how mission-critical?

- Growth and revenue potential
- Is business affected by cyclical versus structural changes?
- Potential for process improvements
- Capital investments and major maintenance needs

### **Performance Measurement**

- Financial Performance - covers all costs?
  - Is there an imputed subsidy rate? Does the business cover operating expense, corporate allocations, depreciation?
- Business-to-land market value
  - What is the land value and how does it compare with the business income?
- Annual holding cost -- opportunity cost of current activities, practices
  - Revenue foregone on vacant or underutilized property
  - Costs associated with holding site -- debt service, maintenance
  - Other?
- Economic benefits -- based on Port standardized economic impact measures to be developed for the Triple Bottom Line
- Community and environmental benefits assessment -- based on Triple Bottom Line measures

## **2. Analyze Business/Real Estate Options**

### **Identify Options:**

- Hold land in current use
- Hold with interim uses
- Disposition
- Property redevelopment
- Relocation of business to other sites
- Other business/real estate uses

### **Analyze Options:**

- Business and Real Estate Issues
  - Identify criteria, strategic priorities (i.e. maritime uses, waterfront, etc.)
  - Identify range of business uses
  - Real estate analysis of property
- Performance Measurement of Alternative Options Measured Against Status Quo and Minimum Thresholds/Targets
  - Potential financial returns
  - Economic benefits - based on Port-standardized economic impact measures
  - Community and environmental benefits

### **3. Develop Property-Specific Plan for Management of the Asset**

- For underperforming properties:
  - Develop improved performance plan
  - Exit strategy
  
- For “holding” properties:
  - Planned holding period and action plan for period
  - Develop exit strategy
  - Properties noted on “hold list” -- list should be prioritized by strategic value and relative performance and reevaluated annually in light of changing market conditions.

