



**Commissioners**

Bill Bryant  
President  
Tom Albro  
John Creighton  
Rob Holland  
Gael Tarleton

Tay Yoshitani  
Chief Executive Officer

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*(The approximate point in the audio recording for the specific item is identified by minutes and seconds; example: 01:30)*

**APPROVED MINUTES  
COMMISSION SPECIAL MEETING MARCH 1, 2011**

The Port of Seattle Commission met in a special meeting at 12:00 noon, Tuesday, March 1, 2011, at Port of Seattle Headquarters, Commission Chambers, 2711 Alaskan Way, Seattle, Washington. Commissioners Albro, Bryant, Creighton and Tarleton were present. Commissioner Holland participated via telephone.

**1. CALL TO ORDER**

The special meeting was called to order at 12:10 p.m. by Bill Bryant, Chair and President.

**2. EXECUTIVE SESSION pursuant to RCW 42.30.110**

**PLEDGE OF ALLEGIANCE**

**3. APPROVAL OF MINUTES**

None.

**4. SPECIAL ORDER OF BUSINESS**

**a. (00:01:42) The Port Centennial – Moment in History.**

Presentation documents: Commission agenda [memorandum](#) dated February 18, 2011, and a computer slide [presentation](#) from Jane Kilburn, Director, Public Affairs.

Commissioner Bryant asked Commissioner Creighton to present the Centennial Moment.

Commissioner Creighton noted that in March 1911 the Washington State Legislature passed the law authorizing establishment of public port districts. On September 5, 1911, the voters of King County voted for the creation of a port district to be known as the Port of Seattle. The Port started with only six properties focused on waterborne commerce, commercial fishing, grain exports, and fruit and cold storage. The Port has grown to include the nation's 17<sup>th</sup> largest airport, a large cruise line operation, and recreational boat moorages. The Port today has over 27 facilities, 2000 acres including 20 public parks. Port owned properties support nearly 120,000 direct jobs in the region and many more industry related jobs generating about \$17.6 million in revenue for businesses and the Port of Seattle tenants.

**b. (00:03:29) Employer Support of the Guard and Reserve (ESGR) Presentation.**

Presentation documents: Commission agenda [memorandum](#) dated February 22, 2011 from Brad Benson, Aviation Project Management Group and Rick Jenkins, Veterans Fellow, Office of Social Responsibility.

Presenter: Luis Navarro, Manager, Aviation Properties, Aviation Business Development.

Mr. Navarro commented on the Port of Seattle's partnership with the United States Service Organization, and the Port of Seattle's Veteran Fellowship Program, which was created because of the vision and commitment of Chief Executive Officer Tay Yoshitani. The Port has been a champion in supporting employees and their families serving in the National Guard and Reserves. Mr. Navarro introduced Mr. Jim Shepherd, Washington State Chair of Employer Support of the Reserve and Guard (ESRG), Mr. Bob Dewald, the Vice Chair of the ESRG, and Mr. Larry Kirchner, who presented the Port of Seattle with a certificate for nomination for the FREEDOM Award. Mr. Shepherd explained that the FREEDOM Award is a Secretary of Defense level award. It is the highest award available to civilian employers for their support of the Guard and their personnel. The Port of Seattle was a nominee two years running because of the level of support that the Port supplies and the programs it runs such as Veteran's Fellowship Program.

**5. (00:11:52) UNANIMOUS CONSENT CALENDAR**

**a. Authorization of the Chief Executive Officer to advertise and execute a construction contract for the 2011 Stormwater Detention System (SDS) Pond M Modifications and SDS 6/7 Vault Outfall Structure at Seattle-Tacoma International Airport (CIP #C100172).**

Request documents: Commission agenda [memorandum](#) dated February 22, 2011, from Michael Ehl, Director, Airport Operations; Wayne Grotheer, Director, Aviation Project Management Group; and Elizabeth Leavitt, Director, Aviation Planning & Environmental Programs.

**b. Authorization for the Chief Executive Officer to (1) authorize design of the Common Use Lounge (Club International) and (2) competitively procure furnishings and casework for the lounge. This authorization is for \$320,325 of a total estimated project cost of \$971,000 (CIP #C800203).**

Request documents: Commission agenda [memorandum](#) dated February 17, 2011, from Nick Harrison, Senior Manager, Airport Operations; James Schone, Director, Aviation Business Development; and Wayne Grotheer, Director, Aviation Project Management Group. Also provided was a [diagram](#) of the location.

- c. **Authorization for the Chief Executive Officer to approve all work and contracts, including executing and amending any and all necessary contracts and service directives for the PROPworks Upgrade Project in an amount not to exceed \$450,000 (CIP #C800328).**

Request document: Commission agenda [memorandum](#) dated February 22, 2011, from Joe McWilliams, Managing Director, Real Estate Division; James Schone, Director, Aviation Business Development; and Krista Sadler, Manager ICT Program Office.

- d. **Approval of revised Port Commission Meeting Minutes of December 7, 2010.**

Request document: proposed [amended minutes](#) from December 7, 2010.

**Motion for approval of consent items 5a – 5d – Tarleton**

**Second – Creighton**

**Motion carried by the following vote:**

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

## **6. DIVISION, CORPORATE AND COMMISSION ACTION ITEMS**

- a. **(00:12:51) Review of the Chief Executive Officer's Performance, the End of the Year Financial Performance Review and the Chief Executive Officers Retention Agreement.**

Request documents: Financial performance [memo](#) dated February 11, 2011, from Dan Thomas, Chief Financial and Administrative Officer and Michael Tong, Corporate Budget Manager. Also provided was the 2010 Financial & Performance [Report](#) and a computer slide [presentation](#).

Presenters: Various, as noted below for each division.

Mr. Thomas gave background on the zero-based 2010 budget process, which reduced and eliminated some programs and functions, implemented the Voluntary Separation Program, introduced premium sharing for Port-sponsored medical plans, and eliminated 110 positions (6.2% of the total workforce). He continued with a broad overview of the financial report stating that 2010 was a good year operationally and financially, and a number of records were set. Mr. Thomas explained that aeronautical revenues were separated from other revenue components for the first time in 2010 because aeronautical revenues are based on cost recovery; therefore, a decrease in aeronautical revenue demonstrates lower expenses than budgeted. Other operating revenues were \$5.7 million over budget representing performance which exceeded the budget target in most of the Port's major business lines. Mr. Tong expanded on the overview given by Mr. Thomas giving details about major revenue variances, major expense variances, and the Net Operating Income (NOI).

Commissioner Tarleton highlighted that although commercial property in the City of Seattle was down last year, the Port of Seattle properties team was able to keep occupancy and revenues up.

Commissioner Bryant mentioned that as the Port of Seattle moves into the budget process for this year it is important to consider what is done in economically challenging years as well as in prosperous years and to prevent expenses from increasing when revenues are high.

Commissioner Albro noted that the fact that there was improvement in the NOI since 2010 shows how quickly the Port reacted on the expense side to balance revenue and expenses. Commissioner Tarleton stated that data showing the trend is more useful than a one-year snapshot, and she emphasized the stability of revenues since 2007, especially since most market impacts were felt in the non-core components of the Port. The ability to manage and balance all of the moving pieces at one time is the sign of an organization that is paying attention to the details as well as the strategic picture.

Mr. Tong concluded that all divisions were under budget in 2010.

**(00:28:57) Aviation Division**

Presenter: Hanh Nguyen, Assistant Manager of Aviation Finance & Budget.

Ms. Nguyen highlighted the fact the Aviation Division had strong financial performance despite regional uncertainties. She reported that enplanements were up from 2009, operating expenses were below budget, cost per enplanement was below budget, and capital spending was below budget. Ms. Nguyen then gave an in-depth review of the following areas:

- Strategic Initiatives
- Operating Expenses
- Aeronautical Business and Key Indicators
- Non-Aeronautical Business and Key Indicators
- Capital Spending

**(00:35:44) Seaport Division**

Presenter: Boni Buringrud, Manager Seaport Finance & Budget.

Ms. Buringrud noted that the Seaport set a new record in twenty-foot equivalent unit (TEU) volume in 2010, and in cruise passengers and sailings. In discussing the environmental aspects of the division, Ms. Buringrud made a correction to the PowerPoint stating that the Clean Air Truck program was successfully implemented at terminal gates on January 3, 2011, the first business day of the year. Ms. Buringrud also reviewed the following areas:

- Seaport Business Goals
- Seaport Organizational Goals
- 2010 Operating Results
- 2010 Key Variances
- Capital Spending

Commissioner Tarleton stated that she wanted to make sure projections of what can be done with capital budget are realistic, noting the airport spent 74 percent of its capital budget while the seaport only spent 36

percent. She emphasized that it is important to move as much of the budgeted money into the economy as possible. Commissioner Tarleton asked how the Port can start focusing on measuring the effectiveness of getting the projects authorized in capital budget on to contracts, which is important to economic growth.

Mr. Yoshitani said the quarterly Capital Improvement Program briefings would be a good opportunity to discuss that issue and the extent to which the Port of Seattle can accelerate things to create more jobs, and that he would add that to the discussion.

**(00:43:09) Real Estate Division**

Presenter: Ms. Buringrud.

Ms. Buringrud discussed the key events for the Real Estate Division and provided more detailed information on the following topics:

- Real Estate Business Goals
- 2010 Operating Results
- 2010 Key Variances
- Capital Spending

**(00:50:11) Capital Development Division**

Presenter: Ralph Graves, Managing Director, Capital Development.

Mr. Graves highlighted 2010 business events and discussed in more detail key indicators, including cost and schedule growth, small business participation, and the amount of time it takes to award a contract.

In response to Commissioner Tarleton's question whether there were targets to reach for improving the time to execution, Mr. Graves responded that there are not specific targets, but the division is aiming to improve on the 2010 numbers since that is the first year for which there is complete data.

Mr. Graves concluded with the Capital Development Division's operating results and key variances of the net budget.

**(00:57:52) Corporate Division**

Presenter: Mr. Tong.

Mr. Tong started with key events of 2010 and discussed in detail the operating results of the Corporate Division for 2010 and major expense variances.

**(01:00:39) Discussion of the Chief Executive Officer's Performance Rating**

Commissioner Bryant noted the Commission has reviewed preliminary financial performance and compared them to the metrics set out for the Chief Executive Officer (CEO) for 2010 and has discussed the CEO's performance. The Commission applauds Mr. Yoshitani's leadership at the Port of Seattle. He noted Mr. Yoshitani led the Port through a financial crisis and demonstrated leadership by turning down a salary increase each year since 2008. Mr. Yoshitani has elevated the Port of Seattle's performance to historic levels and solidified its financial position and increased the environmental sustainability of the Port's operations. Commissioner Bryant stated that the Commission's unanimous conclusion is that the CEO's evaluation for the year is "Outstanding."

Mr. Yoshitani acknowledged that the results for the year were part of a team effort.

**(01:02:19) Discussion of the Chief Executive Officer's 2011 Goals and Objectives.**

Document: CEO's [Goals and objectives](#)

Commissioner Bryant stated the 2011 CEO's Goals and Objectives include eight policy goals and four division objectives. The eight policy goals are:

- Develop a plan for financing the Port of Seattle's contribution for Viaduct Replacement and the Lower Duwamish Waterway clean-up. (Top priority for the year).
- Develop plan and start implementation of real estate portfolio realignment design to achieve breakeven. (Top priority for the year).
- Meet Net Budgeted Operating Income before depreciation.
- Completion of the new Strategic Plan (Century Agenda) for adoption by the Commission in 2011 as part of the POS 100 Year Anniversary.
- Complete resale of the Eastside Rail Corridor.
- Implementation plans to celebrate POS 100 Year Anniversary in 2011.
- Re-energize social responsibility efforts to increase participation by local small and disadvantaged businesses.
- Reduce Corporate expenses as a percentage of revenues.

The four division objectives are:

- Complete the Part 150 Noise and Land-Use Compatibility Study and community engagement process.
- Identify Priority projects for each division in the five-year plan.
- Maintain fundamental self-sustainability of the Seaport.
- Continue to build the West Coast Collaborative effort.

Commissioner Creighton commented that he supports the goals. He explained that the fact that there is no overarching environmental goal does not mean that the Port's environmental ethic is in any way diminished. Most of the Port's environmental goals cover multiple years and therefore a single overarching goal would not be suitable as a one-year goal for 2011. Commissioner Bryant stated that the absence of a

specific environmental goal suggests that environmental impacts are considered in decisions made on a regular basis. Commissioner Tarleton noted that throughout the entire capital program are environmental infrastructure investments that represent the priority that is given to the environment by the Port. She stated that meeting the 2011 budgetary goals would constitute a commitment to environmental investments.

The stated goals for the CEO for 2011 were accepted without objection.

**(01:07:56) Chief Executive Officer Retention Agreement.**

Document: CEO [Retention Agreement](#)

Commissioner Bryant stressed the importance of continuity in leadership in the next three years in large part due to projects such as the \$140,000,000 terminal realignment project at Seattle-Tacoma International Airport; the sale of the Eastside Rail Corridor; development of a plan of finance for the Lower Duwamish Waterway superfund site and the SR-99 reconfiguration and tunnel; and also deeper cooperation with other Puget Sound Ports with increased competition coming from the Panama Canal expansion.

Commissioner Albro stated the Port of Seattle's mission is to the community and the Commission takes stewardship of that mission seriously, making sure the Commission is bringing to the region a Port under strong leadership. Commissioner Albro continued that Mr. Yoshitani's leadership has helped create jobs, not confined to King County, but to other areas as well. He listed the Port's different lines of business and stated that the complexity requires deft management.

**Commissioner Albro moved to execute a Retention Agreement with Mr. Yoshitani.**

**The motion was seconded by Commissioner Holland.**

Commissioner Albro reviewed the key terms of the Retention Agreement, including the following:

- Mr. Yoshitani would continue his duties for 3½ years with a possible one-year extension.
- His annual base salary will be \$366,825.
- He will be treated like every other employee under the Pay for Performance policy.
- Upon completing his tenure as CEO, he will serve under a retainer to advise and counsel his successor and the Commission.

Commissioner Holland thanked the Port staff for an outstanding job. Commissioner Holland noted that Mr. Yoshitani is the only Asian-American CEO of a major U.S. port in the lower 48 states. Mr. Yoshitani's relationships with other maritime and transportation leaders have helped increase the Port of Seattle's business and create jobs. Commissioner Holland pointed out that there are four African-American CEOs of Ports and Mr. Yoshitani helped hire or mentored all of them.

Commissioner Creighton stated that he will vote no on the agreement but that he supports the concept of a retention agreement. He explained that he has some legal and policy issues with the proposed Retention Agreement proposed noting that it would be helpful if a number of the provisions in the agreement had been reviewed and clarified by an outside, independent employment counsel. Commissioner Creighton emphasized that his no vote does not detract from his high regard for the CEO, how fortunate the Port of Seattle is to have Mr. Yoshitani, or the outstanding job Mr. Yoshitani is doing. Commissioner Creighton

expressed his concern about the salary increase of above 7.5 percent when a Salary and Benefits Resolution was passed in November has a maximum of 3.5 percent, stating that even if the Commission is not bound by that resolution when evaluating the CEO, it violates the spirit of the resolution. In addition, he commented that the provision for \$100,000 as a post-employment retainer was circulated less than 24 hours in advance, and he had no way to examine it. Commissioner Creighton highlighted some wording in the agreement concerning the CEO's health benefits, and recalled that when the CEO was hired he was paid a higher salary because the Port would not have to pay his health benefits. Commissioner Creighton said it was not clear in the Retention Agreement if this benefit is already included or if it is being double counted. Regarding the non-compete provision that only applies to other ports in Washington state, Commissioner Creighton stated that in his view it should apply to the entire West Coast as the major competition for the Port of Seattle is in California and British Columbia. Finally, he stated that the non-compete provision is for two years and most non-compete provisions longer than a year have been struck down in the courts.

Commissioner Bryant responded that he would have appreciated hearing those concerns sooner, to which Commissioner Creighton stated there was less than 24 hours to review the final agreement and there was no indication that the document has been reviewed by independent counsel. Commissioner Bryant stated that there was only one revision in the last 24 hours, but that the agreement was circulated for well over a week.

Commissioner Tarleton commented that the future of the Port of Seattle lies with its Asian customers and the Asian markets and that Mr. Yoshitani's personal and professional relationships with those clients and customers will be important in shaping the future of the Port of Seattle. However, she would also vote no on the agreement due to the raise that is embedded in the contract because property values are still falling and unemployment is still high. Commissioner Tarleton said she believes that Mr. Yoshitani is the leader for the Port of Seattle.

Commissioner Albro reminded everyone that in 2008 Mr. Yoshitani was given only a 3 percent raise even though an outstanding rating that year was 5-7 percent. Even though he received an outstanding performance evaluations, in 2009 and 2010 he did not receive a raise. Commissioner Albro stated that the contract is not about the increase, but about keeping the Port of Seattle competitive and attractive to future CEOs.

**Motion for approval of Item 6a – Albro**

**Second – Holland**

**Motion carried by the following vote:**

**In Favor: Albro, Bryant, Holland (3)**

**Opposed: Creighton, Tarleton (2)**

*\*Commissioner Holland was excused from the meeting from this time forward.*



- b. (01:30:01) Authorization for the Chief Executive Officer to: (1) enter into an agreement with Lockheed Martin Corporation; and (2) in accordance with Resolution No. 3628, advertise, award, and execute construction contracts for Terminal 10 Utility Infrastructure Upgrade Project, for an additional estimated cost of \$6,225,000, bringing the total authorized amount of this project to \$7,205,000 (CIP #C899264). If the pending agreements are not finalized by the time of selection of a contractor, the project will not be awarded and construction will likely be delayed until 2012.

Request document: Commission agenda [memorandum](#) dated February 28, 2011, from Michael Burke, Senior Manager, Lease and Asset Management and Fred Chou, Capital Project Manager.

Presenters: Michael Burke, Senior Manager of Construction, Leasing, and Operations and Fred Chou, Capital Project Manager V.

Mr. Burke stated there has been limited use of the Terminal 10 site mainly because the site has minimal pavement. The site also lacks drainage, which is an environmental issue that needs to be corrected to prevent any future liability as the site is part of a superfund site. In 2008, the Commission authorized beginning the design on the project, implementing site improvements, and installing a drainage system in order to make better use of the site and have the proper system working for environmental reasons. The project has been held up in negotiations with the Environmental Protection Agency and Lockheed to install the drainage system. Mr. Burke explained that the negotiation has been difficult because the drainage project involves an offsite underwater cap. He stated that there is no final signed agreement at the time of this meeting, but Port staff is requesting the authority to execute with this action. Bids will not be opened until the agreement and all major permits necessary for the construction on the improvements are in place. Mr. Burke admitted that although there was some risk in approving the agreement prior to completion of negotiations, the project needs to be advertised to be able to do the work in the summer as is mandated.

Mr. Chou noted that the Commission has heard about this project four times previously for the design phase of the project, and, with this construction funding approval, staff will be able to move forward with the advertisement of the construction contract. Construction would begin either late June or early July. In the event that an agreement is not completed the construction contract documents would be repackaged for next year with construction starting and concluding in summer of 2012.

Commissioner Tarleton commented on the need for additional cargo container storage areas but asked if the project was timed to coincide with the loss of capacity from Terminal 46 that was provided to the state for the Alaskan Way Viaduct replacement. Mr. Burke replied that there is no direct relationship. There is a possibility of using T25 south by the contractor for the tunnel in which case it might be necessary to move the free truck parking lot from T25 south to T10 in order to maintain it. In addition, as the industry trends towards chassis pooling, there will be a need for more support space for continued growth.

Mr. Burke responded to Commissioner Tarleton's question regarding the Duwamish clean-up and the South Park Bridge project by noting that the projects are independent. Commissioner Tarleton asked how fast the project would be completed if all permits and agreements are in place. Mr. Chou responded that they are planning for October of 2011 for construction completion.

**Motion for approval of Item 6b – Tarleton**

**Second – Albro**

**Motion carried by the following vote:**

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

Commissioner Holland was absent for the vote.

- c. (01:38:38) **Authorization for the Chief Executive Officer to: (1) proceed with design for the C22 connection to C1 Baggage Handling System (BHS), C1 make up device 1 (C1-MK1) replacement and Ticket Counter 3 (TC3) conveyor replacement for Phase 1 and Phase 2; (2) purchase conveyor equipment for Phase 1; and (3) authorize the use of Port Crews to complete Phase 1 at the Seattle-Tacoma International Airport (CIP #C800382). The amount of this request is \$1,731,000. The total cost of the C22 BHS connection to C1/C1MK1 Replacement TC3 project is \$5,335,000. The request seeks a single Commission authorization to move forward with design of the entire project, and construction of Phase 1 by Port Construction Services. Construction contracts required for Phase 2 of the project will be authorized separately by the Commission after completion of the design.**

Request document: Commission agenda [memorandum](#) dated February 22, 2011, from Michael Ehl, Director Airport Operations and Wayne Grotheer, Director, Aviation Project Management Group. Also provided was a [map](#).

Presenters: Dave Soike, Director, Aviation Facilities and Capital Programs and Arland Fagerstrom, Baggage Operations Manager.

Mr. Soike introduced the project noting that it is part of the larger Airline Realignment Project. There are two parts of the project, design and construction on the first part, which are time critical. The request also authorizes design on the remaining baggage elements that are not time critical.

In response to Commissioner Creighton's comment on TSA requirements slowing down prior baggage projects after 9/11, Mr. Soike confirmed that there should not be any issues going forward. There are still changes to TSA regulations, but the frequency is less now, so the Commission will not see the type of frequent, unexpected change orders as a result of TSA changes that occurred in the past.

Commissioner Albro noted for the benefit of the public that this project authorization is part of a subset of projects geared at realigning carriers at the airport. The reason for the realignment is to improve the terminal operations, passenger experience, and most fundamentally the capacity of the facility to serve the Puget Sound region. These small incremental investments are borne by the airlines but allow the Airport to maintain its place in driving the local economy and maximize the airport's capacity, which is valuable to the region.

**Motion for approval of Item 6c – Albro**

**Second – Tarleton**

**Motion carried by the following vote:**

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

Commissioner Holland was absent for the vote.

*\* Commissioner Bryant was excused from the meeting from this time forward.*

- d. (01:49:51) Authorization for the Chief Executive Officer to advertise and execute a construction contract for the 2011 Airfield Improvement Projects – Contract 2, made up of two work projects at the Seattle-Tacoma International Airport: (1) slot drain, pavement and joint seal replacement at the South Satellite, and perform installation of temporary common use podiums and minor removal of hazardous materials through Port Construction Services with a construction cost request of \$6,235,000 for total project cost of \$6,629,000 (CIP #C800469); and (2) water isolation valve upgrades, with a construction cost request of \$246,000 for a total project cost of \$691,000 (CIP #C102573).**

Request document: Commission agenda [memorandum](#) dated February 22, 2011, from Mike Ehl, Director, Airport Operations; David Soike, Director, Aviation Facilities and Capital Program and Wayne Grotheer, Director, Aviation Project Management Group.

Presenters: Ralph Wessels, Capital Project Manager and Rob Kikillus, Development Manager, Airfield.

Mr. Wessels gave an overview of the project stating that it involves replacing pavement, water valves, and slot drains next to the South Satellite area that have exceeded their service life. The work is combined into one contract to promote efficiency and cost savings. Pavement and water valves have a service life of 20 years, and current pavement and water valves have been in use for over 40 years.

In response to Commissioner Creighton's question regarding how this project will help improve stormwater efforts, Mr. Wessels replied that it does not improve stormwater efforts but maintains the current efforts. The runoff in the area goes into the industrial waste treatment area. Mr. Wessels noted that around the slot drains the concrete is breaking up because of their design, and, if improvements are not made, there is a risk of foreign object debris. This project maintains the integrity of the stormwater treatment facility.

**Motion for approval of Item 6d – Tarleton**

**Second – Albro**

**Motion carried by the following vote:**

**In Favor: Albro, Creighton, Tarleton (3)**

Commissioners Holland and Bryant were absent for the vote.

7. STAFF BRIEFING

a. (01:54:46) Briefing on the Management of the Real Estate Portfolio.

Presentation documents: Commission agenda [memorandum](#) dated February 15, 2011, from Joe McWilliams, Managing Director, Real Estate Division. Also provided was a computer slide [presentation](#).

Presenter: Mr. McWilliams.

Mr. McWilliams noted that as part of the Century Agenda over the next few months there will be more briefings on the findings of the State Auditor on real estate operations. He said the critical question is, as a steward of publicly owned assets, is it the role of the Port of Seattle to maximize the return on those assets and how to go about doing that. The discussion does not address other issues of job creation or economic engines but focuses strictly on the statutory requirements of achieving fair market value with real estate.

Mr. McWilliams stated that real estate is a trailing indicator and that it is necessary to anticipate the supply that will hit the market in the future and how that balances with the demand of that product as it is delivered. It is necessary to look at each asset and balance what it will cost in the future to continue to operate it with what it will require in capital expense contributions, whether tenant improvements for new tenants or capital repairs. The question is how to quantify those over the future of a particular asset.

Mr. McWilliams stated that the favorable implications of the sale option are that it provides capital infusion for debt retirement/funding alternative obligations; minimizes future capital expenditure obligations; removes ongoing maintenance and operating expense obligations; reduces the public liability; returns land to tax rolls; and may marginally reduce staffing costs.

He added that the discussion also has to consider the unfavorable implications of selling an asset, which include eliminating a revenue producing asset that supports other obligations of the enterprise; removing revenue producing assets and increasing the reliance upon the tax levy; removing the most attractive assets and burdening the public with the least attractive assets; and reducing the portfolio upon which overhead allocations are charged.

Commissioner Tarleton noted that there is also a risk of foregoing potential future revenue-generating opportunities by losing the land now without knowing the potential for the future. Knowing the future potential is difficult. Mr. McWilliams concurred that land is a very precious commodity, and in the last two years the Port has contemplated buying back properties it once owned. Commissioner Albro stated that opportunity cost should also be added as an unfavorable implication. Opportunity cost could be cash flows, or it could be coupling that parcel with other strategies to bring and attract other businesses. He noted that using the unfavorable/favorable implications is a tactic and the decision to sell is one that can only be made once. Commissioner Creighton concurred with Commissioners Tarleton and Albro noting that he is against selling Port property except in extraordinary circumstances, such as Pier 48, and he noted the additional comments by Commissioners Tarleton and Albro should be part of the Century Agenda.

Commissioner Albro added that while it is important to have strategies for real estate, that as a public-sector entity the Port is not necessarily most adept at positioning property in the right place in the

marketplace. It is important to use the Port's property in support of strategic objectives that might not be pursued by or be in competition with the private sector.

Mr. McWilliams addressed the "hold" option for real estate, noting that the favorable implications of the "hold" option are that it provides income to support bonding capacity/acquisitions/future obligation; permits land uses that are consistent with market developments; may decrease reliance upon the tax levy; may reduce future capital expenditure obligations; and maintains portfolio upon which to allocate overhead.

Mr. McWilliams stated that it is important to stay current with the market, and economic recovery has been modest in industrial real estate. The occupancy levels are high, but the infrastructure is aging and has completed its useful life. It will be a difficult market-wide problem to solve to keep enterprises that occupy industrial real estate with aging infrastructure.

In response to Commissioner Creighton's question regarding whether principles are being developed as to when the Port should buy real estate, Mr. McWilliams stated those principles are not formalized though they are similar to the principles that apply when the Port should sell or retain property.

In response to Commissioner Albro's request for clarification on the assumptions that apply to capital requirement expectations, such as for the Fishermen's Terminal Net Sheds, Mr. McWilliams responded that the Net Sheds is the largest Real Estate project in the 2012-2015 timeframe and that current timeframe projects include the Northwest Dock Seawall, mechanical replacements at the C15 building, and various smaller projects.

Mr. McWilliams reviewed the Tier 1, 2, and 3 properties. Commissioner Albro noted there are a number of properties at the Airport that are not part of the Real Estate Division and it is important to think comprehensively about the Port's holdings. Mr. Yoshitani stated that the Airport has the ability to consult with the Real Estate Division. Commissioner Creighton pointed out that a number of properties could move between tiers in the portfolio and that part of the Century Agenda is deciding when to move properties between tiers.

Mr. McWilliams commented that the division is working to make the portfolio profitable, and stated that the Real Estate Division's lack of profitability in 2010 was due to legacy events and deferred maintenance. Commissioner Albro later noted that the goal for the Real Estate Division to break even is for 2011 but that it is not a strategic objective of the Port. Rather, creating economic opportunity is a strategic goal of the Port and supporting that goal is the overall goal of the Real Estate Division. He stated that, as a public entity, it is important to take a long-term view. It is important to the strategic planning process to consider that timeline. It is also important to consider the other core elements that affect the use of the real estate, such as location and access.

Commissioner Tarleton raised the following questions regarding real estate to be considered as part of the Century Agenda:

- How should competition be used to get the best opportunities and make the best decisions for the short-term and the long-term?
- How does the public entity relate to the private entity?
- How does the Port get the market to compete, given the importance of not defining the market too specifically?

Mr. Yoshitani pointed out that the Real Estate Division portfolio is very diverse. He cautioned that it is important for the Century Agenda to consider the question of what lines of business the Port should be involved in and not view real estate too broadly.

**b. (02:45:21) 2010 Annual Treasury and Investment Portfolio Report.**

Presentation documents: Commission agenda [memorandum](#) dated February 11, 2011, from Craig J. Kerr, Treasury Manager. Also provided was a computer slide [presentation](#) and a copy of Resolution No. [3589](#).

Presenter: Mr. Kerr.

Mr. Kerr stated that the Port's investment policy requires an annual report of activity. He explained that the Port's investment strategy relies on balancing return and risk over cycles rather than forecasting rates. Under this strategy, when rates fall, the Port outperforms the market, and, when rates rise, the Port underperforms the market. The benchmark used is the Bank of America Merrill Lynch Treasury/Agency 3-Year Index. Mr. Kerr discussed the market strategy the investment team employs and reviewed the details of the investment portfolio noting that investment performance for 2010 was 2.17%, which is above the benchmark of .72%.

In response to Commissioner Creighton, Mr. Kerr explained that before the portfolio was managed by Port staff it was managed by King County. Managing the portfolio internally has created increased revenues and allows for quicker access to view the portfolio's performance.

Commissioner Tarleton asked how the performance of the portfolio could be leveraged to the Port's advantage, to which Mr. Kerr stated that the rating agencies as well as underwriters review the Port's investment portfolio, performance, and the composition of the portfolio, which is part of the evaluation in determining the Port's rating. If the Port's portfolio is not prudently managed, the underwriters and rating agencies will comment on it. Mr. Thomas added that they also look at the overall cash balances and in particular cash reserves. Over the past couple years a critical factor was conservation of cash, as there were times that access to credit markets was limited. Commissioner Tarleton stated that she wants to make sure that the Port does not inadvertently undermine the Port's position in the market by teaming with other entities that do not have as good a rating and track record. Several large joint efforts are coming up that might require looking at this question.

Mr. Kerr concluded with a brief discussion of the composition of the funds.

**8. NEW BUSINESS**

None.

**9. POLICY ROUNDTABLE**

None.

**10. ADJOURNMENT**

There being no further business, the special meeting was adjourned at 3:10 p.m.

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

John Creighton  
Secretary