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APPROVED MINUTES
COMMISSION REGULAR MEETING MARCH 6, 2012

The Port of Seattle Commission met in a regular meeting Tuesday, March 6, 2012, at Port of Seattle Headquarters, Commission Chambers, 2711 Alaskan Way, Seattle, Washington. Commissioners Albro, Bryant, Creighton, Holland, and Tarleton were present. Commissioner Tarleton was excused after 3:15 p.m. in order to attend to other Port business.

1. CALL TO ORDER

The regular meeting was called to order at 12:03 p.m. by Gael Tarleton, Commission President.

2. EXECUTIVE SESSION pursuant to RCW 42.30.110

The regular meeting was immediately recessed to an executive session estimated to last approximately 60 minutes to discuss matters relating to leasing of real estate. Following the executive session, which lasted approximately 50 minutes, the regular meeting reconvened in open public session at 1:10 p.m.

PLEDGE OF ALLEGIANCE

3. (00:01:30) APPROVAL OF MINUTES

Regular meeting of December 13, 2012.

Motion for approval of minutes for the regular meeting of December 13, 2012 – Bryant

Second – Creighton

Motion carried by the following vote:

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

4. SPECIAL ORDERS OF BUSINESS

4a. (00:01:55) Commission Activities Report.

Presentation document(s): Commission agenda memorandum dated March 1, 2012, provided by Mary Gin Kennedy, Director of Commission Services.

Commissioner Albro reported on Commission activities during February 2012, noting the February 14 Century Agenda kick-off breakfast and related outreach events, including nine Commission presentations to stakeholder groups; Commission adoption on February 14 of concessions program goals for the 2015-2017 redevelopment of the Airport concessions program; testimony before the State Legislature regarding leasehold tax definitions in Senate Bill 6250; February 28 approval of first reading of Resolution No. 3659, transferring a portion of the Eastside Rail Corridor to the City of Kirkland; travel between February 18-28 to Asia for customer calls; and approval on February 28 of an outstanding performance evaluation of the Chief Executive Officer for 2011.

4b. (00:06:14) Internship Employer of the Year Award.

Presentation document(s): Commission agenda memorandum dated February 24, 2012, information about the Port of Seattle's internship program, and attachment provided by Kim DesMarais, Senior Manager, Employment; Derek Bender, Employment Program Coordinator.

Presenter(s): Mr. Bender and Gayatri Eassey, Associate Director of External Affairs, Seattle University.

Ms. Eassey reported that in February 2012 Seattle University had recognized the Port as Internship Employer of the Year because of the Port's commitment to diversity and to the breadth of programs and disciplines for which internships are available at the Port.

Mr. Bender commented on the competitiveness of the Port's internship program, the internship application process, and the alignment of the program with the Port's hiring process. He noted that since 2008, the Port has hired 107 interns, and acknowledged interns Holly Decker and Eric Sakshaug, who were present in the audience.

5. (00:16:19) UNANIMOUS CONSENT CALENDAR

5a. Approval of $328,000 expense funds for regulated materials management and training for the Seattle-Tacoma International Airport Gate Aircraft Utilities Improvements Project, which were not included in the original authorization request. This request completes the necessary Commission authorization for the expense funds needed for this project (CIP #C800019).

Request document(s): Commission agenda memorandum dated February 24, 2012, provided by Michael Ehl, Director, Airport Operations; and Wayne Grotheer, Director Aviation Project Management Group.

Motion for approval of consent items 5a – Albro

Second – Creighton

Motion carried by the following vote:

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

(00:17:22) PUBLIC TESTIMONY

As noted on the agenda, public comment was received from the following individuals:

- Kurt Beecher Dammeier, Owner of Sugar Mountain Capital and Beecher's Handmade Cheese. Mr. Dammeier commented in support of agenda item 6b, the proposal to open a Beecher's location at the Airport, and his company's approach to pure, all-natural food, local suppliers, and valued employees. Mr. Dammeier submitted his comments in written form, and a copy of the document is, by reference, made a part of these minutes, is marked exhibit A, and is available for inspection in Port offices.
- Maureen Bo, Vice President of Puget Sound Alliance for Retired Americans. Ms. Bo spoke in opposition to a McDonald's concessions lease at the Airport, noting the importance of supporting living-wage jobs and the negative health effects of eating fast food, especially for food service workers.
- David Mendoza, Policy Analyst for Puget Sound Sage. Mr. Mendoza spoke in opposition to approving an airport concessions lease with McDonald's prior to development of a full concessions leasing program. He noted the importance of family-supporting jobs and stated that McDonald's workers have to rely on public health services. He expressed concern over basing the decision to allow a McDonald's at the Airport on provision of affordable food options for the Airport workforce, which he said mainly consists of minority populations living in areas linked to high obesity and diabetes rates.
- Julie Williams, employed by the Seattle Tap Room. Ms. Williams spoke in opposition to a McDonald's at the Airport, stating that it would result in loss of wages and benefits for employees at the Seattle Tap Room. She said the lack of a worker retention requirement in the Airport concessions program is frightening to workers.
- Steve Lansing, Community Organizer for United Food and Commercial Workers (UFWC) Local 21. Mr. Lansing commented in opposition to the proposed McDonald's lease at the Airport because of the importance of providing a livable overall income, the importance of supporting locally owned and women- and minority-owned businesses, and a desire to provide healthy food. He said McDonald's does not meet the community standards for these criteria and urged competitive bidding of the lease contract.
- Stefan Moritz, Director of Strategic Affairs for Unite Here Local 8. Mr. Moritz commented in opposition to the McDonald's lease because he said McDonald's would reduce revenue for surrounding businesses and target low-income Airport employees with unhealthy food options, and because fast-food jobs are often poverty-wage jobs. He criticized the process of extending individual leases to McDonald's and Beechers, the result of which he said would harm workers and cost millions of taxpayer dollars. He cited a State of Maryland study he said was distributed to Commissioners, but that was not submitted for entry into the record of this meeting. Mr. Moritz stated his union's preference for a competitive bidding process for the lease proposed for McDonald's.
- Julia Nottingham, employed by HMS Host-operated Anthony's Restaurant and Fish Bar, and affiliated with Unite Here Local 8. Ms. Nottingham stated food workers should be paid a living wage with health and retirement benefits and that McDonald's is not right for the Airport. Ms. Nottingham submitted copies of approximately 460 email messages opposing an Airport concessions lease with McDonald's. A copy of the documents is, by reference, made a part of these minutes, is marked exhibit B, and is available for inspection in Port offices.

- Lucas Franco, affiliated with Unite Here Local 8. Mr. Franco read a copy of the statement submitted as exhibit B that he stated was endorsed by 25 individuals and advocacy groups listed on the message opposing an Airport concessions lease with McDonald's. Mr. Franco submitted a copy of the statement, which is, by reference, made a part of these minutes, is marked exhibit C, and is available for inspection in Port offices.
- Robert Comiskey, Owner/Operator of the Comwell Company, doing business as McDonald's. Mr. Comiskey spoke in support of the proposal in agenda item 6c to execute a lease at the Airport with his McDonald's franchise. He described his franchise as a local, family-owned business and introduced employees who have worked for his company for 14-21 years. He stated his employees have good jobs with benefits and are provided education and training opportunities and advancement possibilities. Mr. Comiskey noted that 90 percent of his employees are minorities and women. He commented on the healthy food choices available in his restaurant, the locally sourced food supplied there, and his eagerness to participate in the Airport's environmental sustainability initiatives. Mr. Comiskey submitted a copy of his remarks, a fact sheet describing his McDonald's franchise, and a flyer describing the charitable contributions, economic impact, and food quality and safety standards of McDonald's small business franchisees. A copy of the document is, by reference, made a part of these minutes, is marked exhibit D, and is available for inspection in Port offices.

6. DIVISION, CORPORATE, AND COMMISSION ACTION ITEMS

6a. (00:39:00) Industrial Development Corporation (IDC) Annual Meeting.

Request document(s): IDC agenda memorandums dated February 24, 2012, regarding approval of minutes, election of officers, and 2011 annual report. IDC meeting minutes of March 6, 2012, will be made available for inspection in Port offices upon approval.

The regular meeting of the Port of Seattle Commission was recessed at 1:48 p.m. to hold the annual meeting of the Industrial Development Corporation of the Port of Seattle. The regular meeting of the Port of Seattle Commission reconvened at 1:55 p.m., chaired by Commissioner Tarleton.

6b. (00:46:32) Authorization for the Chief Executive Officer to negotiate and execute a lease and concession agreement with Beecher's Handmade Cheese to operate a food and retail unit on Concourse C, in space recently vacated by Regus Business Center, for a term of seven years. The draft lease (Exhibit D) is not necessarily the final version and is subject to negotiation within the stated parameters provided in this memorandum.

Request document(s): Commission agenda memorandum dated February 27, 2012, map of location, draft lease agreement, fact sheets on Beecher's Handmade Cheese, and computer slide presentation provided by James R. Schone, Director, Aviation Business Development; and Deanna Zachrisson, Manager, Concessions Business.

Presenter(s): Ms. Zachrisson.

Ms. Zachrisson reported that, despite staff efforts to plan for an Airport concessions program beyond the 2015-2017 time frame based on direction from the Commission, unexpected business challenges, such as the Borders bankruptcy, have required immediate solutions. She stated that staff has worked to ensure their recommendations are consistent with the goals of the Commission as articulated in the policy direction adopted February 14, 2012.

Ms. Zachrisson noted that the proposals for consideration today represent new jobs at wages comparable to those already available at the Airport with stable, local employers. She explained that sufficient customer volume is a prerequisite of concessions success and noted that of 33 million potential annual Airport customers, 25 percent do not make purchases in the Airport at all. She commented on the potential to create additional shopping appeal with the proposed leases.

Ms. Zachrisson described Beecher's Handmade Cheese as meeting concessions program goals of addressing customer demand, increasing Port revenue, contributing to a Northwest sense of place, providing a small business opportunity to a local owner, and creation of regional economic opportunities through local suppliers. She pointed out the location of the proposed unit, described nearby similar concessions, and noted long lines and frequency of walk-offs indicating lost revenue at those locations. She contrasted the proposal with the previous tenant of the space, Regus Business Center, and noted that the new concept would not duplicate existing offerings in the area but would provide products expected to appeal to Airport travelers.

Ms. Zachrisson outlined the proposed lease terms, including projected sales of $2.1 million, 12 percent rent, minimum annual guarantee of at least $120,000, projected Port revenue of $252,000 in the first year, a seven-year lease, estimated initial tenant investment of $200,000, and owner operation of the unit.

Commissioner Creighton commented on his concern about proceeding with concessions leasing in the absence of a developed concessions leasing policy based on the Commission's guidance of February 14, 2012. He acknowledged that the Beecher's proposal is consistent with the February 14 policy direction by promoting a Northwest sense of place and local Northwest products and said he would support it.

Commissioner Tarleton stated her support of the proposal due to its consistency with the Commission's guidance on February 14, particularly promotion of a Northwest sense of place, generation of revenue, provision of small business opportunities, and mixing national anchor concepts with local, small, and minority- and women-owned businesses. She commented on the motion's distinction that anticipated direct solicitation of one or more units operated by small, Airport Concessions Disadvantaged Business Enterprises (ACDBEs), or locally-owned businesses and competitive processes for larger companies operating multiple concessions units.

Commissioner Holland remarked that he supports the Beecher's proposal, but added that the overall concessions program has not been adequately discussed, particularly regarding the status of ACDBE businesses and the intended split between union and nonunion concessions units. He stated he had not been adequately communicated with and wanted to know when the dialog on the overall concessions program would occur.

Mark Reis, Managing Director, Aviation Division, noted that although an overall transition in concessions leases was not anticipated until 2015-2017, staff was faced with the issuance of a request for proposals (RFP) for a duty-free concession in 2010, surfacing of associated worker retention issues, and realization of the unrelated need for a major realignment of airline facilities at the Airport. With postponement of the duty-free RFP, Mr. Reis explained that legislative, stakeholder, and policy review on worker retention issues during 2011 was focused on the 2015 concessions transition, not on issues emerging during the interim.

Commissioner Holland stated that the overall policy issues regarding union and nonunion concessions and disadvantaged business enterprises on Concourse A should be addressed during the interim before development of the 2013 concessions master plan and that no additional leases should be executed during the interim before addressing those issues. He commented on the existing Commission direction being lacking to address repeated individual lease opportunities.

Commissioner Albro recommended additional Commission discussion to provide further guidance on the Airport concessions program. He stated his support for the Beecher's and McDonald's leases and commented that considering one good for the community and the other bad is a fallacy. He noted that in addition to promoting local flavor, the February 14 policy guidance acknowledged the desire to maximize revenue and provide service to the public and noted the value of brand recognition and familiarity.

Commissioner Albro pointed out that despite an apparent preference for the Beecher's proposal versus McDonald's, there had been no discussion of wages, worker benefits, union status of workers, or healthfulness of food offerings with respect to the Beecher's lease. Regarding the split between union and nonunion concessionaires, he noted that the Port could not influence either the decision of the workers of a union operation to decertify, or the decision of workers of a nonunion operation to organize, and stated the Commission should not mandate a formula split between union and nonunion concessionaires for this reason.

Commissioner Albro noted the inconsistency of the UFCW and Unite Here in advocating that 70 percent of the Airport concessionaires be large businesses and 30 percent be small, ACDBE businesses while advocating for small business when arguing against McDonald's. He stated that the public policy concerns relating to issues affecting workers and services offered to the public are more relevant to him as a policy maker than the success of particular labor unions.

Commissioner Creighton commented on general support in the Commission for a worker retention program, despite the caution of staff on the subject and the resulting lack of a clearly communicated policy on worker retention.

Commissioner Tarleton emphasized the importance of workers and commented on the efforts of the Commission to respect the concerns of all concessions stakeholders as they advocate their various positions. She commented on the need to respond to emergent opportunities as they arise and noted the strength of the Airport concessions program, which experienced record revenue volume of $169 million in 2011 and a record number of employees working in the concessions program. She stated that Airport concessions workers' jobs are not at risk today in contrast to conditions in the general state economy. She stated decisions about opportunities in the Airport concessions program do not have to be made piecemeal and added that big companies can compete for lease opportunities and that local, small, and women- and minority-owned businesses need to be recruited into the program because they do not know how to compete in that environment.

Motion for approval of item 6b – Albro

Second – Bryant

Motion carried by the following vote:

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

6c. (01:30:50) Authorization for the Chief Executive Officer to negotiate and execute a lease and concession agreement with McDonald's Corporation to operate a restaurant in a currently vacant location on Concourse B for a term of 12 years. The draft lease (Exhibit C) is not necessarily the final version and is subject to negotiation with the stated parameters provided in this memorandum.

Request document(s): Commission agenda memorandum dated February 27, 2012, map of location, draft lease agreement, and computer slide presentation provided by James R. Schone, Director, Aviation Business Development; and Deanna Zachrisson, Manager, Concessions Business.

Presenter(s): Ms. Zachrisson.

Ms. Zachrisson described McDonald's as meeting concessions program goals of addressing customer demand and increasing Port revenue. She stated the McDonald's is expected to generate approximately $5 million in revenue over the life of its lease. She added that the proposal relieves the Port of the need to reinvest as much as $400,000 in the subject space because McDonald's will bear the development cost. Despite being a national concept, Ms. Zachrisson reported that the design of the space would be tailored to contribute to a Northwest sense of place and she noted that the lease provides an opportunity for a local, small-business franchisee headquartered in Normandy Park. She commented on McDonald's local food sourcing and the proposal's generation of new, quality jobs.

Ms. Zachrisson presented the lease location and commented on the lack of quick-serve food options and current loss of business due to walk-offs from other concessions in the area that are over capacity. She noted challenges inherent in the subject space and stated that McDonald's is uniquely situated to successfully take advantage of a less desirable location.

Ms. Zachrisson described customer demand for an Airport McDonald's, noting that of the top 25 airports in the U.S., 21 have at least one McDonald's and that McDonald's is the most frequently requested quick-serve concept at the Airport. She commented on the attractiveness of McDonald's lower price point to the 25 percent of Airport customers who currently make no purchases at the Airport.

Ms. Zachrisson summarized the proposed lease terms, which she said are comparable to other concessionaires, noting first-year projected sales of $3.5 million, a tiered rent structure starting at nine percent and rising to 13 percent with increased sales, a minimum annual guarantee of at least $280,000, and a lease term of 12 years justified based on the high level of investment by McDonald's to improve the concessions space. She noted that the unit would be included in the Airport concessions master planning process. She added that the McDonald's corporation would assist the franchisee with the high development costs.

Commissioner Holland repeated his frustration with the pattern of development in Airport concessions and suggested the McDonald's lease be postponed, despite acknowledging the franchisee's good small business practices and provision of opportunities to women and minorities. Although open to having a McDonald's at the Airport, Commissioner Creighton commented in support of postponing a decision on the McDonald's lease. Commissioner Albro stated that he was not opposed to postponing the lease decision as long as the postponement was not indefinite.

Commissioner Tarleton noted that both UFCW and Unite Here appeared to be supportive of a competitive procurement for the proposed McDonald's space and stated that big companies should compete for Airport opportunities. She acknowledged that other emergent opportunities could arise before finalizing the Airport concessions master plan and requested a presentation from staff within a month on the open concessions spaces that will need to have action taken within the next year, the approach of staff toward ACDBEs and local franchisees, and the basis for their approach.

Commissioner Albro asked that the decision on the McDonald's lease not be postponed later than receipt of the briefing described by Commissioner Tarleton. Commissioner Tarleton stated she would like to have a limited competition for the space. Commissioner Creighton proposed that other national chains, such as the International House of Pancakes, might want to bid for the space. Commissioner Tarleton acknowledged the importance of providing the McDonald's franchisee with a decision on its lease proposal.

Mr. Yoshitani stated that staff could present the requested briefing on March 27, 2012. He reminded the Commissioners that accelerating the process of developing an overall concessions plan would require the Commission's action to obtain review of the *CityIce* injunction and that a comprehensive plan would not be ready by March 27.

At the discretion of the Chair, further consideration of agenda item 6c was postponed to a subsequent Commission meeting.

7. STAFF BRIEFINGS

7a. (02:02:05) Terminal 91 – Neighbors' Advisory Committee – 2011 Annual Report and Chairperson Nomination.

Presentation document(s): Commission agenda memorandum dated February 13, 2012, Neighbors' Advisory Committee Annual Report, letter of nomination, and biography of Bruce Laing, provided by Marie Fritz, Manager, Cruise Services and Business Development.

Presenter(s): Ms. Fritz, and Bruce Laing, Neighbors' Advisor Committee Chair.

Ms. Fritz introduced Mr. Laing and stated the Neighbor's Advisory Committee (NAC) would like to retain Mr. Laing as Chair. Mr. Laing presented the NAC annual report, noting positive collaboration with Port staff and a focus on traffic issues, including monitoring traffic in and near Terminal 91 and informal scoping of traffic status changes prior to entering into a formal process of amendment of the NAC agreement with the Port. He commented on the NAC's hope that the Port would ensure that traffic network implementation associated with replacement of the Alaskan Way Viaduct will be promoted to ensure the highest capacities on area surface streets. He thanked the Port for its outreach efforts relating to siting of the combined sewer overflow facility.

Commissioner Tarleton was excused after 3:15 p.m. in order to attend to other Port business. The remainder of the meeting was chaired by Commission Vice President Creighton.

7b. (02:16:40) 2011 Financial Performance Briefing.

Presentation document(s): Commission agenda memorandum dated February 24, 2012, 2011 Financial and Performance Report, and computer slide presentation provided by Dan Thomas, Chief Financial and Administrative Officer; and Michael Tong, Corporate Budget Manager.

Presenter(s): Mr. Thomas; Mr. Tong; Borgan Anderson, Senior Manager Aviation Finance and Budget; Boni Buringrud, Senior Manager Seaport Finance and Budget; and Ralph Graves, Managing Director, Capital Development.

Bond Refunding

Elizabeth Morrison, Senior Manager Corporate Finance, reported that pursuant to Commission authorization on February 14, 2012, over $600 million in bonds had been refunded, achieving a present-value savings of $85 million, well above the savings targets for bond refunding. She stated that over the past two years, the Commission has authorized five bond refunding issues, representing refunding of approximately $1.2 billion in bonds at lower interest rates for a total present-value savings of over $150 million.

Richard Schober, Managing Director of Public Finance for Seattle Northwest Securities Corporation, provided an overview of market conditions, noting the wisdom of issuing the bond refunding prior to increasing volumes and reporting on the credit ratings of several similarly situated airports in the bond market.

Financial Highlights

Mr. Thomas reported on 2011 financial highlights, noting an increase in total Port operating revenue over 2010, although operating revenues were slightly below budget due to security grant revenues that are based on a cost-recovery model. Other operating revenue was higher than 2010 and above budget for 2011, and operating expenses for all divisions were under budget.

Mr. Thomas reported net income before and after depreciation was higher than in 2010 and the 2011 budget. He stated the Port's change in net assets, reflective of the Port's total bottom line, amounted to $107 million, 61 percent above budget and more than double that for 2010. He said capital spending was below budget.

Mr. Thomas noted that 2011 cost per enplanement was higher than 2010 but below 2011 budget. Non-airline net operating income, Seaport operating revenues, Seaport net operating income before depreciation, and Real Estate operating revenues were all above budget and higher than in 2010.

Mr. Thomas commented on the strong performance of the Port's self-funded medical program, noting costs below projections, savings associated with being self-insured, and refunding of retained reserves from former insured programs.

Overall Performance

Mr. Tong commented on background for 2010 budget and actual numbers, noting implementation of zero-based budgeting that reduced and eliminated some programs, implemented a voluntary separation program, introduced premium sharing for the Port-sponsored medical plan, and eliminated 110 positions. He stated 2010 actual expense was $9.5 million below budget.

Mr. Tong provided background for 2011 spending increases, noting the following increases: capital policy change, $5 million; Port Centennial, $1.2 million; deferred maintenance, $2.1 million; Rental Car Facility expense and spending requested by airlines, $5.8 million; and a baseline increase of $8 million.

Mr. Tong reported on major revenue and expense variances for 2011, provided an operating income summary, and presented a five-year net operating income comparison. He stated net operating income before depreciation in 2011 was $215.1 million, the highest since 2008, and noted 2011 operating revenue was a record $4.8 billion. He provided a comprehensive financial summary and a summary of capital spending by division.

Aviation

Mr. Anderson presented 2011 Aviation division budget highlights, noting increased enplanements, operating expenses below budget, increased net operating income and non-airline net operating income relative to 2010, and lower-than-budgeted cost per enplanement. He presented information for aviation activity for 2011 by month and noted greater year-over-year growth in international enplanements than domestic enplanements. He presented a division summary and commented that the debt service coverage reflects the strength of the division's cash flow.

Mr. Anderson presented a summary of operating expenses and expense variances. Regarding aeronautical business, he commented on airline rate base savings of $5.6 million related to debt service rates and offsets and an additional $3.5 million resulting from hiring and realignment delays. With regard to non-aeronautical business, Mr. Anderson noted increases in parking, rental car, ground transportation, and concessions revenues compared to 2010.

Mr. Anderson commented on net cash flow and capital spending, noting that most of the Airport's cash flow comes from non-aeronautical business and pointing out specific capital project savings.

Seaport

Ms. Buringrud commented on key 2011 events, noting record net operating income of $60.7 million and the division's exceeding its net operating income budget by $9.4 million. She highlighted major 2011 projects and noted strong performance relative to the division's business goals, including the division's first-ever second consecutive year of TEU (twenty-foot equivalent unit) volume over 2 million. She noted that although grain volume was lower compared to 2010, it remained at or above 5 million metric tons for the seventh consecutive year. She noted that grain volume for 2012 is trending approximately 18 percent higher than 2011.

Ms. Buringrud commented on progress on Seaport organizational goals related to environmental initiatives and regional transportation and presented summaries of operating budget results and key revenue and expense variances. She stated that operating expenses and operating income excluding security grant revenues were both four percent over budget. She presented a summary of net operating income by business group, noting that all groups were above budget with the exception of grain, and provided a summary of capital expenses and variances, noting that Seaport expended 55 percent of its capital budget.

Real Estate

Ms. Buringrud reported on key Real Estate 2011 events, including exceeding the 2011 net operating income budget by $1.9 million and completion of various major construction projects. She commented on long-term planning efforts in the division and stated commercial occupancy rates are at 90 percent, slightly above the Seattle market average. She noted revenue at the Bell Harbor International Conference Center exceeded budget by 7.5 percent, and commented on marina occupancy rates for commercial and recreational uses.

Ms. Buringrud presented a Real Estate revenue and expense summary, noting overall favorable revenue and expense variances despite a $1.1 million unfavorable variance related to Eastside Rail Corridor litigation. She presented a list of key revenue and expense variances, noting maintenance budget savings in part due to deferral of a Pier 69 project to 2012. She reported that all Real Estate business groups except the Eastside Rail Corridor exceeded budgeted net operating income, and she presented a summary of Real Estate division capital spending.

Capital Development

Mr. Graves presented key Capital Development division business events, noting progress on the Rental Car Facility, application of Continuous Process Improvement to consultant contracts, and changes to accounting for overhead costs. He noted that the ratio of hard to soft costs has remained consistent since 2009, reflecting efficient operation. He provided a summary of cost growth during construction and design and construction schedule growth and noted improvement in procurement time for the Central Procurement Office.

Mr. Graves summarized the division's gross operating results, noting spending was under budget, and presented key budget variances, which were positive overall.

Corporate

Mr. Tong reported on Corporate division key events, including receipt of 14 awards on a variety of subjects. He noted registration of 576 small businesses on the Port's new roster system, and summarized year-end variances by department. He stated revenues were above budget by $534,000 and expenses were below budget by about $3.2 million. He presented a summary of major expense variances and a Corporate cost analysis as a percentage of operating revenue.

7c. (03:10:23) 2011 Annual Treasury and Investment Portfolio Report.

Presentation document(s): Commission agenda memorandum dated February 10, 2012, and computer slide presentation provided by Craig J. Kerr, Treasury Manager.

Presenter(s): Mr. Kerr.

Mr. Kerr reported that the average life of the securities in the Port's portfolio is 27 months. He described the Port's investment strategy to balance return over risk over time and noted that the benchmark used is the Bank of America Merrill Lynch Treasury/Agency Three-Year Index. He summarized the composition of the Port's portfolio and outlined interest rate trends in 2011.

Mr. Kerr presented a summary of treasury yield trends in 2011 and provided quarterly performance relative to the benchmark. He summarized relative portfolio earnings since 2007 and provided a yield history back to 2002, noting that the Port has outperformed its benchmark over time. Mr. Kerr described the fluctuation of the Port's investment portfolio over the past five years, noting that capital spending reduces the portfolio while issuance of bonds increases it.

Mr. Kerr concluded by presenting the composition of the investment pool participating funds. In response to Commissioner Albro, Mr. Kerr advised caution in adopting investment strategy shifts that would alter a long-term balanced view in favor of timing the market, with the risks associated with such a strategy.

Mr. Kerr commented that review of the Port's investment policy is underway in as part of a regular re-examination and noted that staff might return to Commission in the months ahead with recommendations.

8. NEW BUSINESS

None.

9. POLICY ROUNDTABLE

None.

10. ADJOURNMENT

There being no further business, the regular meeting was adjourned at 4:34 p.m.

Tom Albro
Secretary
Minutes approved: May 1, 2012.