



**COMMISSION  
AGENDA MEMORANDUM**

**Item No.**

7a

**BRIEFING ITEM**

**Date of Meeting**

October 24, 2017

**DATE:** October 17, 2017

**TO:** Dave Soike, Interim Executive Director

**FROM:** Dave Soike, Interim Executive Director

**SUBJECT:** Follow-up Discussion of Operating Division Budget Requests

**EXECUTIVE SUMMARY**

This memorandum provides responses and additional information to various Commissioners' questions raised at the October 10, 2017 budget briefing discussions by each of the three operating divisions of the Port: Aviation, Maritime, and Economic Development. This additional information is being provided for a faster turn-around and discussion opportunity as the Port continues preparing its final annual budget which is due to be submitted to King County on December 4.

**BUDGET TIMETABLE**

**Completed:**

- June 13: Budget process briefing for Commissioners
- September 26: Central Services (Corporate) budget briefing for Commissioners
- October 10: Operational Divisions Budget briefing for Commissioners

**Upcoming:**

- October 24: Plan of Finance/Tax Levy briefing, and responses to questions from October 10 briefing
- October 24: Publish draft Port budget book to allow three weeks review prior to first reading and five weeks prior to second reading
- November 14: First reading
- November 28: Second reading
- December 4: Statutory deadline for filing budget with King County
  - A supplemental budget can be passed subsequently, and is not required to be filed with King County.
  - Staff will strive to complete the annual budget to include all items added or modified by the Commission in order to meet the December 4 deadline; however if necessary due to additional or modified items from Commission, certain

supplemental items could be considered in December provided public notice requirements are met.

**ADDITIONAL INFORMATION**

Several questions arose during staff presentations of the operational budget plans. The following categorizes the questions and provides available information to enable Commissioners to further discuss as necessary. Questions and responses are outlined below.

**Economic Development:**

**Q:** *Provide more information regarding the \$750,000 project item within the “Business Plan Perspective” category.*

**A:** This item is for replacement of the aging flat roofing atop the building that Anthony’s restaurant occupies on Pier 66. This roof is approximately 25 years old and is at the end of its service life. The sloped metal roofing portion of the building is not yet at its service life. The Port as owner of the building has responsibility to maintain the exterior envelope of the building including its roof. Replacement is warranted per maintenance evaluation reports (

**Aviation:**

Enplaned passengers growth, compared to landing and landed weight

**Q:** *How does the growth in enplaned passengers compare to the growth in landings and landed weight?*

**A:** Here is the percentage growth for each area:

|               | Enplaned Passengers | Landings | Landed Weight |
|---------------|---------------------|----------|---------------|
| 2018 Budget   | 5.0%                | 5.0%     | 4.3%          |
| 2017 Forecast | 3.0%                | 1.9%     | 2.5%          |
| 2016          | 8.0%                | 8.3%     | 10.1%         |
| 2015          | 12.8%               | 12.3%    | 9.9%          |
| 2014          | 7.7%                | 7.2%     | 7.5%          |
| 2013          | 4.7%                | 2.1%     | 4.8%          |

Actual percentage changes from year to year diverge due to load factors (percentage of seats filled by passengers), fleet mix (gauge of aircraft), and to some extent the relative growth of cargo freighters (no connection to passengers growth, but still reflected in landings and landed weight figures).

Here are the raw numbers:

|               | Enplaned Passengers | Landings | Landed Weight |
|---------------|---------------------|----------|---------------|
| 2018 Budget   | 24,654              | 216,527  | 28,995,400    |
| 2017 Forecast | 23,480              | 206,216  | 27,805,778    |
| 2016          | 22,796              | 202,345  | 27,120,850    |
| 2015          | 21,109              | 186,869  | 24,641,923    |
| 2014          | 18,717              | 166,448  | 22,421,004    |
| 2013          | 17,376              | 155,262  | 20,848,624    |

Growth in cargo operations

**Q:** *Please provide additional information about 2017 cargo growth.*

**A:** Through September 2017, total cargo is up 51,760 metric tons (+19.3%) year-to-date over the same 9 months of 2016.

- Of this, freight is up 49,660 MT (+21.8%), and mail is up 2,100 MT (+5.1%)
- Within the freight category, domestic freight is up 40,500 MT (+29.1%), and international freight is up 9,160 MT (+10.4%)
- See Page 11 (Supplement 1) for further details

Street Pricing by Dining and Retail Tenants:

**Q:** *Provide more information regarding street pricing at Sea-Tac. In November 2015 the Port approved street pricing flexibility for Airport Dining and Retail (ADR) tenants to provide relief regarding costs related to complying with City of SeaTac’s increased minimum wage and benefits law. Several Commissioners asked about the monitoring of and compliance with street pricing, what other airports do and charge related to street pricing and how Sea-Tac compares.*

**A:** The Port requires all ADR tenants to submit pricing for their products/services as well as pricing for comparable street-side locations for approval by Port staff by December 31st of each calendar year. Once the pricing is submitted, Port staff verifies the data and then either approves or disapproves the proposed pricing based on the guidelines set forth in the Street Pricing Policy.

Earlier this year, Port staff submitted to Commission a report detailing the background and findings of the 2017 ADR Tenant Street Pricing Audit. At that time, staff found that of the 58 ADR tenants surveyed, 45 were in compliance and 13 were not in compliance with the airport’s policy. We contacted non-compliant companies, giving them 10 business days to correct the pricing. A second round of Street Pricing Audits was scheduled in phases to confirm compliance and complete the audit. Phase 1 was scheduled for April through May 2017, while phase 2 was scheduled for June through August. Due to changes in Port staffing, these secondary audits have not yet been completed.

The ADR Team is in the process of procuring temporary staff to complete the 2017 Street Pricing Audit. This work will include verifying that pricing from appropriate comparable locations was accurate as well as that pricing within the tenant's airport units matches the approved pricing. Random checks of ADR units will be conducted to ascertain on-going compliance. ADR staff is in the process of developing a Quality Assurance Program which includes a mechanism to track all contractual obligations including compliance with the Street Pricing Policy.

As of January 1, 2018, pricing will be limited to up to 5% above street prices, down from 2017's 7.5% limit. In 2019 the limit drops to 2.5% and in 2020 we return to regular street pricing.

See Page 12 (Supplement 2) for additional details.

### Sound Transit Ridership at Sea-Tac

**Q:** *What is the ridership for Sound Transit at the airport? Do we have a rough estimate of ridership growth or decline of airport light rail – is it knowable earlier than results from a full transportation study?*

**A:** The Port's quarterly survey of enplaning passengers, started in 2014 indicates the light rail share of air travelers consistently hovers around 5-6%. Accordingly, in 2016 about 1.1 to 1.3 million travelers used light rail.

A historic comparison of Sound Transit data is difficult because they have not reported the data in a consistent format over the years. We can, however, get a rough idea of the ridership trend by looking at Sound Transit's "Summer boardings" data from pre-2015 and pairing it with Q3 data from the more recent average daily boardings:

|       |       |
|-------|-------|
| 2011: | 4,974 |
| 2012: | 5,222 |
| 2013: | 5,753 |
| 2014: | 6,764 |
| 2015: | 7,287 |
| 2016: | 7,450 |

Note that Sound Transit data includes airport passengers, employees, locally generated trips, and transfers from bus routes; airport travelers data is not separated out.

#### Cart service from Sound Transit Light Rail station

**Q:** *Provide information regarding the potential for Sound Transit to consider funding the electric cart delivery service for customers from the SeaTac light rail station through the garage and to the closest sky bridge.*

**A:** Aviation staff has contacted Sound Transit staff to discuss this possibility.

#### Transfer of Airport property to the Economic Development Division

**Q:** *Provide information about possible intra-divisional transfers of Airport property to the Economic Development Division?*

**A:** Airport property could be sold to the Port's Economic Development division. However it would have to be purchased at fair market value, which is subject to review and approval by the FAA. The federal requirements have not changed since the last commission inquiry. Note that a 2014 federal audit (unrelated to POS) did not question an airport's legal authority to undertake intra-agency sales. In August 2014 at Commission request the Port identified the conceptual steps necessary for selling airport property to the Port's Real Estate division, which staff could provide to Commissioners.

**See Attachment 3 for additional details.**

#### Purchase of electric buses for Sea-Tac

**Q:** *Provide information regarding upcoming electric bus purchases.*

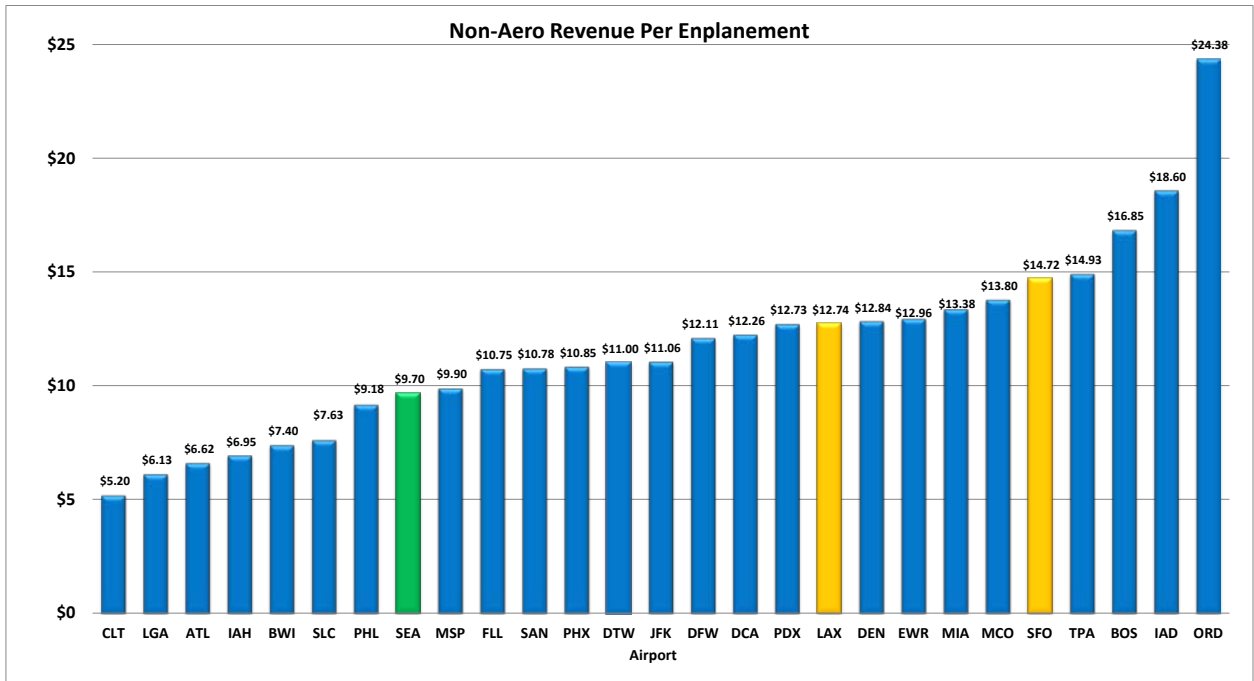
**A:** Converting the bus fleet to electric is a key strategy in the Port's Green Fleet Plan to reduce the Port's carbon emissions. Aviation staff will brief Commission on November 28 on the results of an initial evaluation of the potential environmental benefits and financial costs of replacing and supplementing Sea-Tac's natural gas bus fleet with electric buses. The briefing will recommend to the Commission whether to continue with natural gas-powered buses or move to electric.

Airport staff forecasts the need to add five or six buses by 2020 to the Rental Car Facility bus fleet of 34 to meet current and projected customer demand and customer service standards. Staff also forecasts the need to replace all 11 buses currently serving the North Employee Parking Lot within the next four years as they reach the end of their service life.

#### Non-airline Revenue Comparison

**Q:** *Provide information on the non-airline revenue per enplaned passenger at peer airports.*

**A:** See chart below for 2016 data collected through the Airports Council International (ACI) data base. Every airport is different, and staff will need to investigate reasons for why other airports do comparatively better than Sea-Tac.



Taxi per trip fees

**Q:** Provide information on taxi per trip fees at other airports.

**A:** An Airport Cooperative Research Program study from 2015/16 referenced average per trip fees of \$1.00 - \$5.00. Another study from AGTA from 2014 references a range of \$0.96 to \$5.44. The same study notes that some airports charge annual fees, and other airports charge concession fees.

**Central Services (Corporate):**

Onboarding Capacity

**Q:** Provide information verifying whether we can hire fast enough to support the total number of FTE's proposed for the 2018 budget.

**A:** The HR team does not have concerns about filling the additional 84.9 FTE positions in 2018.

- We have filled 494 positions in 2017 so far; some of the volume of hiring in 2017 will not be repeated at the same level in 2018. For example, 76 of 146 new FTEs filled in 2017 were airport screeners.
- The HR team has requested one additional FTE in 2018 to handle the level of hiring.
- See page 13 (Supplement 3) for a summary of Port-wide FTEs.

Long Range Plan objectives and Century Agenda goals

**Q:** *Provide information regarding changes to Long Range Plan (LRP) in order to clarify LRP objectives that carry out Century Agenda goals.*

**A1:** Century Agenda Objective 1, regarding TEUs: The Century Agenda goal of 3.5 million Twenty-Foot Equivalent Units (TEU) container throughput was set before the NorthWest SeaPort Alliance (NWSA) joint venture was formed. Objective 1 now states that the NWSA container goal for both north and south harbors is 6.0 million TEU.

**A2:** Foreign Trade Zones: The following 2018 milestone has been added to LRP Objective 1: “Explore opportunities to expand utilization of Foreign Trade Zone #5 in partnership with NWSA and other public/private stakeholders.”

**A3:** Update LRP to reflect number of WMBE businesses: This metric was in our 1<sup>st</sup> draft LRP, but was mistakenly left out of the final draft. The metric has been restored.

**A4:** Century Agenda should address WMBE and Veteran businesses: The Commission discussed updating the Century Agenda and agreed to review this.

**A5:** Facilitate the support of Industrial Lands: The LRP Objective 15 addresses support of industrial lands through three Priority Actions and four 2018 milestones.

Disparity Study

**Q:** *Provide information regarding updating disparity study(s) from a port-wide perspective.*

**A:** 2018 Preliminary budget includes \$90,000 for participation in FAA/WSDOT disparity study for Washington airports. Focus is on federally assisted construction and construction related projects.

EDD budget includes spending up to \$50,000 to work with same consultant to broaden the scope to Port-wide. Under separate contract this study includes all non-federal construction and consulting contracts greater than \$200,000.

Airport plans to propose at first reading an additional disparity study focused on airport dining and retail. Cost estimate is being refined, but likely about \$300,000.

Capital Development Costs

**Q:** What percentage of the Capital Development Division costs in the operating budget is capitalized?

**A:** See chart below, in 2017 and 2018 CDD has budgeted for some significant expense projects in support of the Aviation Division, including the air corridor safety program and support for renovations to airport dining and retail units, as well as ongoing regulated materials management.

|                    | <b>2016</b>   | <b>2017</b>   | <b>2018</b>   |
|--------------------|---------------|---------------|---------------|
|                    | <b>Actual</b> | <b>Budget</b> | <b>Budget</b> |
| Total O&M expense  | 39,949,342    | 64,192,913    | 67,259,629    |
| Charged to capital | (27,731,054)  | (38,658,053)  | (40,970,266)  |

|                     |            |            |            |
|---------------------|------------|------------|------------|
| Net O&M             | 12,218,288 | 25,534,860 | 26,289,363 |
| Percent capitalized | 69.4%      | 60.2%      | 60.9%      |

**Maritime**

Maritime Storm Water Utility

**Q:** *Provide more information about (1), the benefits to Puget Sound, (2), the cost recovery model, (3), reasons for the rate increase and (4), the intersection with NWSA in south harbor.*

**A1:** Benefits to Puget Sound: The utility was created in 2014 to enable the Port to improve the cleanliness of storm water entering Puget Sound from Port properties. The Utility collects stormwater fees from Port tenants and reinvests the funds into maintaining and upgrading the stormwater infrastructure. Prior to creating the utility, all of the stormwater fees paid by the Port and its tenants were diverted from the properties of the Port and its tenants.

Initial efforts focus on installing a rain garden (bio-retention pond) along the Centennial Park trail to better treat stormwater entering Elliott Bay; installing tide gates to further protect marine wildlife, and assessing the pipe system to identify and prioritize necessary repairs.

**A2:** Rate increase: The proposed 7.75% rate increase allows for our infrastructure improvements, assessments and maintenance program to move forward as desired. With this rate increase our rate structure remains 12 to 15% lower than the City’s rate structure for 2018.

The Stormwater Utility team is presenting at the November 14 Commission Meeting and will provide additional details on the reasons for the rate increase.

**A3:** Cost recovery: Yes, this is cost recovery; all funds collected by the Utility must be spent on stormwater. To date, \$1.7 million has been spent on, or committed to, capital for equipment to get the Utility up and running. Additionally, approximately \$7.4 million has been spent on expense activities, primarily performing the assessments to obtain the baseline system condition data; urgent repairs and administrative costs in operating the Utility. There is an additional \$3.6 million committed for capital works through 2020, and about \$6 million projected to complete the assessments by 2019 as well as additional administrative costs.

**A4:** Intersection with the NWSA: Tenants, including the NWSA, pay stormwater fees based on the area of their leaseholds and the category of the property (e.g., high proportion of impervious cover, undeveloped such as parks). The stormwater fees for the remaining unleased land in a facility are paid by the operating business. The operating business is either the NWSA or the specific Port business (EDD, Maritime Ops, Cruise, etc.) that oversees the unleased property.



The NWSA and NWSA tenants pay a significant portion of the total fees collected, due to the large amount of land comprised by the licensed properties. They do not pay for other stormwater costs from the Port of Seattle related to maintaining the Port's overarching municipal permit or related to maintaining infrastructure.

**A5:** NWSA North and South Harbors: Marine Terminal Operators are responsible for compliance with industrial stormwater permits required by their operations. In the case of terminals 46 and 18, the Port of Seattle agreed during lease negotiations to share in those costs. Similar agreements have occurred in the South Harbor at the Log Yard (permit and O&M costs are now transferred to the operator) and West Sicum Terminal due to activities of previous tenant.

In the South Harbor, the Port of Tacoma has worked with the City of Tacoma to negotiate (via an Inter-local Agreement), a lower fee structure and has not formed a stormwater utility. Port of Tacoma Facilities Maintenance performs maintenance and repair activities in the South Harbor.

#### Cruise and Tourism marketing

**Q:** What is the difference between what Cruise staff and the Tourism staff do?

**A:** First, staff from the two departments collaborate routinely on cruise and tourism promotions. Additionally Cruise staff focuses more on marketing to cruise lines, and retaining current Cruise lines and attracting new cruise business. EDD Tourism staff focuses more on promoting King County and Washington State tourism options for both cruise and airport passengers.

#### ATTACHMENTS TO THIS BRIEFING

- (1) Sea-Tac Cargo Growth
- (2) Sea-Tac Tenant Street Pricing
- (3) Port wide FTEs
- (4) Transfer of Airport Property to EDD

#### PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- October 10, 2017 - Operational Divisions budget briefing
- September 26, 2017 - Central Services (Corporate) budget briefing
- June 13, 2017 - Budget process briefing