

Municipal League of King County – Report on the Port of Seattle Port of Seattle Response to Draft Report

Commissioners and staff members at the Port of Seattle have appreciated the opportunity to work with the Municipal League in exploring how the organization can improve its ongoing service to the citizens of King County. The observations and recommendations contained in the report, we know, are given in a constructive spirit. Many of the suggestions included, such as the creation of a robust employee ethics program, are already being implemented as you note in your report. Others are welcome recommendations that we believe will assist the Port in becoming a more efficient and transparent organization.

Per your request, below are the recommendations or observations that we feel warrant clarification.

The Port's Mission (Pages 1-2)

The report notes that the Port's current mission should be clarified and perhaps narrowed in scope. As you note on page 2, the Port began the Century Agenda process in 2008. This strategic planning process includes citizen panelists from a wide range of stakeholders and is designed to assist the Port Commission in crafting an updated mission as the organization approaches its centennial in 2011. The Century Agenda process is concurrent with ongoing organizational initiatives such as the Audit Response Action Plan, organization-wide furloughs as a result of budget cuts, and a modified zero-based budgeting process for 2010.

BNSF Eastside Rail Corridor: Property Value (pages 2-3)

As noted on page 2 of the report, the Eastside Rail Corridor represents an irreplaceable regional asset and King County citizens are best served by ensuring it is placed in public ownership. While other agencies considered purchasing the corridor, those agencies were unable to do so and the Port, in the long-term interests of the region, committed to the purchase.

Your report asserts that the purchase price of \$107 million is too high. As explained to members of the study group, King County arranged for the property valuation, which was conducted by a highly respected expert in property appraisal. That appraisal remains the property of King County and BNSF. Port commissioners and staff members have had access to that appraisal information, and are satisfied that proper due diligence was conducted and that the appraisal given is a fair assessment of the property's value.

The Port was not able to provide that proprietary information to the Municipal League because the sale has not closed and the valuation remains the property of King County.

Eastside Rail Corridor: Future Use (page 3, first paragraph)

We disagree that proposed uses along the Eastside Rail Corridor are “incompatible with heavy freight rail use.” The ultimate uses along the corridor will be decided through a robust, thorough public process that will begin once the sale has closed. The Port has been adamant throughout all negotiations that any final designs, including bike and pedestrian paths, must accommodate the possibility of freight rail in the future.

Use of Public Funding and Resources (page 4)

Future Competitiveness: Road and Rail Connections (page 4, final paragraph)

While your report specifically calls out road and rail capacity, the Port is engaged in other efforts to promote Seattle as the premier gateway for goods destined for the U.S. Midwest:

- *The Green Gateway.* The Port recently released the results of a study that quantifies the carbon emissions of goods shipped from Singapore, Hong Kong, and Shanghai to the U.S. distribution hubs of Chicago, Columbus, and Memphis. The Pacific Northwest gateway is the low-carbon corridor for cargo moving between Asia, the American Heartland, and even to the East Coast. As shippers and consumers alike become more aware of the ecological footprint of the goods they ship and buy, we believe the Green Gateway will become a significant business advantage.
- *Joint promotion with the Port of Tacoma.* The two Pacific Northwest ports have engaged in several joint promotion efforts. A folio outlining those efforts is attached to this report.

The Port of Seattle is committed to its role as a global, international gateway; we continue to plan for, and provide, infrastructure improvements to help the Port stay competitive with other US West Coast and Canadian ports. We’ve developed a strategy to help grow our container business from under 2 million today to 5 million TEUs over the next 30 years (see Appendix A, “We are prepared for growth”). To achieve this, the Port needs to work with other public and private sector stakeholders to improve efficiencies on the existing marine and rail terminals, and to improve roadway and rail infrastructure in the port vicinity, in the Puget Sound region, statewide and transcontinental.

Providing needed infrastructure is costly, and to do this, the Port needs to rely on both government and private investments, which is currently happening at other ports, especially in Canada. The competing ports and their stakeholders are making investments in an attempt to draw business away from the Port of Seattle and the entire U.S. West Coast. This effort is resulting in increased jobs and economic

benefit for other regions. The Port of Seattle is absolutely committed to growing its businesses here, fighting to keep these jobs and dollars in Washington State.

To make this happen, the Port continues to work with federal, state and local public agencies to get needed transportation infrastructure in place. The transportation system also requires the existence of competitive rail service, which includes the BNSF Railway and the Union Pacific Railroad (UP). The Port supports rail improvements which foster competitiveness between the railroads, resulting in more favorable rail rates and improved service and reliability for Port customers. To this end, the Port and its partners are focusing on I-5 rail improvements to improve I-5 rail mainline capacity. According to the 2004 Rail Capacity Study commissioned by the Washington Public Ports Association, there is currently adequate rail capacity through the Stevens Pass/Stampede Pass/Columbia Gorge corridors. BNSF anticipates capacity improvement may be needed in about 8-10 years, on which we will work cooperatively.

The Port has worked closely with the Port of Tacoma over the past two years to identify critical road and rail projects necessary to keep the Pacific Northwest competitive. The complete road and rail project list is shown in Appendix B. Appendix C shows the highest priority projects and the current funding status of these projects. There has been a great deal of success in achieving funding for the high priority roadway projects in the past half-year, and we have further hopes that many of the rail projects will be funded in the federal stimulus competitive grant programs in the coming year. The Port is also working with others to assure separate freight infrastructure funding is included in the re-authorization of the federal Surface Transportation budget (The current authorization ends in September 2009.)

There are many potential sources for funding large, intermodal freight projects. The Port of Seattle is pursuing all of them as appropriate in partnership with our stakeholders and partners. These funds include federal, state and local funds, private development (including the BNSF and UP), and the Port of Seattle.

Historically, the Port's tax levy has been one funding source the Port has used to provide its share of funding for critical freight infrastructure projects. The Port has used tax levy funds to contribute funding to the Galer Street Overpass, West Seattle Bridge, and FAST Corridor rail grade separation projects (including the SR 519 and East Marginal Way Grade Separations, for example). These projects have all included multiple funding partners and have provided direct benefits to freight coming to and from Seaport facilities.

This year, federal stimulus funding has become available and this has helped to fund several important freight projects in the region. This has included funding for Spokane Street, East Marginal way and Mercer Street near the Port of Seattle, as well as Lincoln Street near the Port of Tacoma. We hope that the federal Passenger Rail Stimulus funds available later this year will help fund critical rail improvements in the I-5 Corridor that will help speed both passenger rail and freight rail. While the

Port of Seattle is not directly funding the I-5 rail project improvements, we recognize their benefits and priorities and are working to advance their funding and implementation.

Review of Peer Ports (page 4, final paragraph)

The Port continually analyzes the performance and trends of all West Coast ports, including those in British Columbia. As you note in your report, the Washington Public Ports Association (WPPA) recently released a marine cargo forecast which demonstrates that, provided the state invests in necessary infrastructure improvements, the ports of Seattle, Tacoma, and Vancouver, WA, will be able to compete for significant cargo growth in the decades to come. The Port of Seattle contributed to the cost of conducting the study.

...the Port has gradually increased its reliance on the tax levy and on general obligation debt... (page 5, paragraph 1)

From 1994 through 2007, outstanding G.O. bond debt grew by \$243 million, while Seaport revenue bond debt grew by \$343 million over the same period (including the T-18 special revenue bonds). In 1994, G.O. bonds comprised 46% of total outstanding Seaport debt and revenue bonds comprised 54%. In 2007 G.O. bonds accounted for 43% of total Seaport debt and revenue bonds accounted for 57%. This does not support the report's assertion that the Port has increased its reliance on G.O. debt.

[The Port] has entered into investments and contracts that are not sustainable and that do not generate a positive return. (page 5, paragraph 1)

The entire report provides only a few examples of individual contracts and investments that were critiqued; given the hundreds of millions of total contracts and investments made by the Port, further information is needed in order to draft a comprehensive response to this claim.

...the Seaport...continue(s) to lose money... (page 5, paragraph 1)

As demonstrated in the attached document, the Seaport has had a positive net operating income (NOI) before depreciation since 1999, and a positive NOI after depreciation since 2005.

The extensive Port land holdings are not on the public tax rolls... (page 5, paragraph 1)

This statement implies that **all** Port property is off of the tax rolls; however, all tenants leasing Port property pay leasehold excise taxes to the state in lieu of property taxes.

...and the economic benefits of Port activities are not always easy to determine. (page 5, paragraph 1)

Comprehensive economic impact data, detailed by specific activity, is provided in the Port's economic impact study, which is updated approximately every five years. The Port's most recent report was issued in early 2009. The most recent report also determined that seaport activities generate over \$450 million of state and local taxes annually. In addition, \$439.4 million in federal aviation-specific taxes were generated by activity at the airport.

...the levy itself resembles a general subsidy to cover cash shortfalls across the Port's operations... (page 5, paragraph 2)

Port policy is clear that the levy is used for capital investments, environmental mitigation, and transportation infrastructure; it does not fund operations. The report provides no evidence to support the assertion that the levy is being used to cover operating cash shortfalls.

The report's calculation of what the Seaport and Real Estate bottom line would be without including the levy revenue is not accurate, as expenses paid for by the levy (for example G.O. bond interest expense and freight mobility expenditures) would not likely have been incurred either.

Growth in tax levy/comparison with Port of Tacoma (page 5, paragraph 3, table)

The large increase in the Port's tax levy in 2003 was in direct response to the major 2002 economic downturn and was designed to sustain the Seaport's capital investment program and protect financial margins during a two year period in which Seaport net operating income dropped 64%, from \$36 million to \$13 million. From 2003 through 2009, the levy has increased at an annual rate of 4.6%. The Port's levy collections should not be expected to directly correlate to TEU volumes due to the nature of the container business (large, fixed investment in facilities, variable volumes dependent on a variety of local, national and international factors) and the fact that the Port's levy is used for purposes other than container development (this lack of correlation is clearly evident in the accompanying graph, which shows significant growth in Port container volumes from 1990 through 2002, with virtually no increase in the levy over the same period).

Comparisons with the Port of Tacoma are difficult due to a variety of factors. The Port of Seattle's business focus is much more diverse than Tacoma's—in addition to traditional cargo and industrial real estate activity, Seattle includes the rapidly growing cruise industry, for which the tax levy provided seed capital, significant

investment in docks and other infrastructure in support of the Pacific Northwest fishing industry, and public investment in the redeveloped Seattle central waterfront. Another factor is that much of Seattle’s recent container terminal expansion involved significant costs related to property acquisition, business relocation, and environmental cleanup, whereas much of the Port of Tacoma’s terminal development projects over the same period occurred on property that the port already owned (much of which was donated). Without having undertaken a significantly more detailed comparative analysis of the two ports, the assertion that “*the Port of Tacoma may be dramatically more cost-effective in the management of its seaport assets*” appears overly broad and unfounded based on a mere comparison of tax collections and container volumes.

Tax Levy Utilization (page 6)

The Port believes its present policies have generally served as a useful guide in determining eligibility for levy funding. As mentioned in the report, however, the Port is currently reviewing its levy funding policies in connection with the Century Agenda strategic planning process.

Refinancing Debt (page 7)

In developing its funding plans, the Port undertakes detailed analyses that require balancing a wide variety of factors, including lien specific and aggregate Port wide debt service coverage ratios, division specific debt service coverage and cash flow margins, interest rates, and statutory and policy driven G.O. bond issuance parameters, among others. The significant costs related to the expansion of Terminals 5 and 18 utilized a mix of revenue bonds as well as G.O. bonds, operating cash and direct levy funds (the T-18 project also incorporated a special project financing structure due to revenue and G.O. bond capacity constraints). The Port believes that utilizing levy funds for these projects was appropriate.

The decision to refund portions of the revenue bonds that financed these projects with G.O. bonds also incorporated the factors and parameters described above and, given that both revenue bonds and G.O. bond had originally been utilized, this decision was entirely consistent with the overall funding of these projects. The Port disagrees that these decisions unduly shifted the burden on these bonds to King County taxpayers—in fact, these decisions freed up additional revenue bond capacity that was used in 2007 to issue \$228 million of revenue bonds to fund investments including the Terminal 30 container redevelopment project.

Public Ownership of Prime Real Estate – “Under-utilized real property assets (page 8)

The report asserts that “some 200 acres” of the Port’s real estate holdings are a “virtual economic wasteland,” yet offers no specific data to support that claim.

As your report notes, Port CEO Tay Yoshitani created a Real Estate division, headed by Joe McWilliams, to provide greater focus on developing and maintaining the Port's real asset portfolio.

Your report notes the Port of Seattle Harbor Development Strategy developed in 2001. The Port uses the guidelines outlined in the strategy as the basis for long-term real estate investments.

Terminal 91 Uplands (page 9)

The development of Terminal 91 uplands has been a priority of the Port for several years. The Port is currently reviewing a draft of the Planned Action Ordinance for the property and working with the City on an outreach plan to key stakeholders. When that outreach has been completed, the mayor will submit the PAO to the full council. At this point, we anticipate that the city council will review and adopt the ordinance later this year.

A developer RFP will follow adoption of the PAO, though the actual issuance of the RFP will depend on recovery of the real estate market.

Tsubota Steel site (page 10)

As shared with the study committee, the Tsubota Steel site is currently under a short-term lease with Seattle Dirt, Inc. The lease is designed to provide an interim use for the property until the development market improves.

Accountability and Transparency (page 10)

Availability of briefing materials (page 11, paragraph 4)

Commission briefing materials that are not privileged - briefing memos, action requests, and proposed resolutions - are attached to the online agenda and available prior to any commission meeting. Other supporting documents, such as Power Point presentations, reports, leases or lease amendments, maps and photos are also attached.

Once meeting minutes are approved, the accompanying documents are attached to the online version of those minutes. Minutes are available online from 2001 to the present; those from 2004 forward have supporting documentation attached. In addition, indexed streaming video recordings of commission meetings are available on the website from 2007 forward.

The availability of current memos and supporting documents on the Port's website is comparable to that provided by the King County and Seattle City Councils and the Port of Tacoma. The planned upgrade to the Port's website has been delayed

because of budget cutbacks; improving public access to Port documents was a key component in the new site's design parameters.

Financial Analysis and Competitive Port Comparisons (page 11)

The Port already undertakes an extremely rigorous process for significant financial commitments. It should be noted that the Port operates in a competitive, market driven environment and that investments are driven by a dynamic business planning process that incorporates an ongoing and detailed evaluation of elements such as new business opportunities, current customer needs, facility renewal and replacement plans, and security requirements, to name a few. As projects proceed through the planning process, cost estimates are developed and refined, detailed financial analyses are prepared, and alternatives are identified and analyzed.

From a large population of port projects and contracts, the report cites two examples to support a sweeping conclusion that the port's process lacks rigor. The process recommended in the report appears unwieldy and overly cumbersome, particularly the notion of comparing all port investment to results achieved by other ports, given the significant differences among ports. The rationale for this approach is not clearly articulated nor is there any indication that different decisions would have resulted from using it.

Use of Sole Source Contracts (page 11, paragraph 5)

As noted in your report, the Port has made significant changes in contracting procedures during the past year. The report states that "sole source contracts are often used rather than the more time-consuming public bidding process." Without more specific information, it is difficult to provide any contextual or correcting information. The Port adheres to relevant sections of the Revised Code of Washington (attached) when using sole source contracts.

Memoranda for Potential Projects (page 12, paragraph 3)

On page 12, your report states that Port staff should prepare memoranda when asking for approval of a specific project. Memoranda prepared for commission meetings are already written with each of the subject headings and/or content suggested. The Port has made a major effort over the past year to improve the quality of its memoranda and accompanying documentation to assist the Commission in making better decisions and to provide greater transparency for the public on Port decisions and activities.

Long Term Agreement with Carnival Corporation (page 12)

With regard to comparing the forecasted return with other cruise terminal operations, in particular those of Vancouver, B.C., the Port has not been able to obtain the forecasted returns, cruise passenger volumes, or anticipated cruise tariff increases.

The memorandum compares net present values between the original tariff and those resulting from the agreement. In both cases, these values are calculated ignoring the capital costs associated with the development of T91 as a cruise terminal and any other capital costs associated with the cruise business.

The Port thoroughly considered the appropriate format and methodology of the financial analysis to be used for the Long Term Agreement with Carnival Corporation, and chose not to include the capital cost of the T-91 cruise facility construction in the financial analysis for the Long Term Agreement with Carnival Corporation as the decision to construct the T30/91 projects had already been approved by commission. The Long Term Agreement with Carnival Corporation was a completely separate (and subsequent) business opportunity, and therefore needed to be evaluated on its own merits – as outlined in the Dec 2, 2008 commission memo.

The Municipal League response above states that “*memorandum compares net present values between the original tariff and those resulting from the agreement*” and goes on to say “*this gives a fair comparison of the impact of the tariff change (and this was clearly the objective)*” – so it appears that the Municipal League understands the format in which the Port presented the financial impact of this business opportunity. Linda Nelson, Assistant Manager of Seaport Finance and Budget, discussed the Port’s reasoning and financial analysis methodology with Port study committee member Adam Lloyd prior to the issuance of the Municipal League’s draft report. Mr. Lloyd indicated at that time that he understood the Port’s reasoning.

We disagree that the commission memo for the Long Term Agreement with Carnival Corporation “*gives a misleading impression as to the magnitude of the Port’s anticipated bottom line losses under the cruise business plan*”. The Municipal League appears to be requesting a comprehensive review of the Port of Seattle’s business model for cruise operations. The Long Term Agreement with Carnival Corp was negotiated, recommended by Port staff, and approved by Commission within the context of the existing business model for cruise operations.

With regard to the comment that the memorandum should have addressed a “competitive approach” for stevedoring services, such an approach would have required early terminal of the Port’s lease with Cruise Terminals of America L.L.P., a move that Port staff did not feel warranted. Alternative business models for the Port of Seattle cruise business are not under consideration at this time.

T18 Expansion Project (page 13)

The Port chose to invest in the properties surrounding Terminal 18 to put the property back into productive use. The Port was aware that significant environmental remediation would be necessary, as would investment into

infrastructure. However, the Port believes that investments made on Harbor Island have been made in the public interest – reclaiming formerly unused land and putting it to productive, economically viable use.

Port of Tacoma vs. Port of Seattle Staffing Levels (page 13, paragraph 3)

It is very difficult to compare staffing at the two organizations, as the business structures differ significantly. The Port of Tacoma focuses solely on containers, warehousing, and industrial lands; the Port of Seattle oversees a more diverse portfolio that includes container and cruise terminals, a thriving commercial fishing industry, and a grain terminal. After recent layoffs, the Port of Tacoma will have approximately 210 staff members; the Port of Seattle’s Seaport Division has 52 to oversee the entire portfolio.

Economic Impacts of the Port (page 13)

Your report highlights the need for cost-benefit analysis for all port investments. The Port believes that such analysis occurs as a matter of course during project planning; however, your suggestion to ensure that it is both accessible and transparent to the public is sound and the Port will consider how to improve communication in this area.

With regard to the economic impact report prepared by Martin and Associates, Mr. Martin asked that we include the following memo in its entirety in this response:

To: Michael Tong
From: John Martin
Subject: Municipal League Report
Date: June 8, 2009

The purpose of this Memo is to respond to the Municipal leagues criticism of the Martin Economic Impact Study of the Port of Seattle. First, as stated in the Municipal Leagues discussion of economic impacts of the port, it is to be emphasized that the Municipal League first praised the reports and the methodology for its” transparency, with the methodology and assumptions clearly explained. It is this level of transparency and defensibility” that is the cornerstone of the Martin Associates methodology. The impacts are presented at varying levels, ranging from direct impacts which are derived directly from interviews with literally every Port tenant and service provider; to induced impacts which are estimated very conservatively using data from the Consumer Expenditure Survey and jobs to sales ratios in retail and wholesale sectors of the Seattle Economy (from US Census data for the Seattle Metropolitan Region). It is to be emphasized that the induced jobs are truncated at the wholesale level of re-spending in order not to over state induced jobs. The indirect impacts are estimated from actual local purchases obtained from the telephone and personal surveys with each tenant and service provider. These local purchases are then used with job and income multipliers for the Seattle area economy in the supplying industries, and the multipliers are

derived for Martin Associates for King County and the State of Washington by the US Bureau of Economic Analysis, Regional Input Output Multiplier System.

The reason the impacts are presented at various levels – direct, induced, indirect and related is for the very reason that the Municipal League has criticized the report. The presentation of the impacts at these specific levels allows the impact analysis to be assessed at the most narrow range of impacts, the direct impacts, to a growing level of impacts – the induced, indirect and related impacts. Each time the impacts are discussed, the varying levels of detail are presented, and the reader can choose at which level he/she wishes to truncate the impacts – at the narrowest definition to the broadest definition – inclusive of the user impacts. No other impact analyses/methodology, in my opinion, provides for such a discrete, disaggregated definition of impacts, and provides analysts the ability to select the level of detail and scope of impacts to be considered.

It is to be emphasized, that when used for planning purposes, typically only direct, induced and indirect impacts are considered, and are broken out at the various levels of detail. This again underscores the defensibility of the methodology, and its application as a planning tool.

In direct response to the statement that consultants come up with answers that they know their customers want to hear is simply not true. The Port of Seattle clearly did not wish to hear that direct jobs created by the Port actually declined by 4,500 jobs between 2003 and 2007, and further document where those losses occurred by Line of Business and job category. Ports would rather have the consultant make sure their economic impact is growing. Despite a growth in passenger traffic, direct airline jobs fell by 419 jobs over the period, again information that is not particularly beneficial from the Port's standpoint, but defensibly detailed by the consultant. In fact, such an unfounded statement that a consultant only tells what the client wishes to hear reduces the validity of the entire Municipal League's Report, and underscores the lack of professionalism of the Municipal League's analysis and purpose/validity as a watchdog organization.

With respect to the direct criticism by the Municipal League regarding the Visitor Industry Impacts generated by Sea-Tac, it is for the very reasons stated that the visitor industry impacts are estimated separately from the airport-generated impacts. The visitor industry impacts are not buried in the report, but instead described in great detail and separately from the airport-generated impacts. Therefore, if the Port's critics wish to not include any of the visitor industry impacts, it is their choice, and the report provides that possibility and flexibility. However, it is to be emphasized that these visitor industry impacts are in fact supported by the out-of-town visitors using Sea –Tac for either business or pleasure, and the analysis measures the impacts of these local purchases based on in-terminal surveys of the passengers. Without the existence of Sea- Tac, it is further likely that the level of economic activity generated by the City's industrial base, including Microsoft, Boeing, etc. would not have occurred, as these large employment generators would not have located in the Seattle area. These economic development impacts due to the

existence of a large international airport such as Sea-Tac are not measured in the report, and as a result it can be argued that the airport impacts are actually understated.

In conclusion, The Martin Impact studies are not cost- benefit studies. They are economic benefits studies, and so defined. The Port of Seattle also assesses the economic costs of the proposed projects, which are then combined with the potential economic benefits (derived from the Martin Impact Analysis), as well as the financial return to the Port. This method of measuring the economic benefits, the economic costs and financial and market feasibility to the Port, will and do result in sound, and rational planning and growth.

Culture and Governance (page 14)

As noted in your report, the Port has undertaken significant reform in the wake of the 2007 performance audit conducted by the State Auditor's Office. Staff has provided regular updates to the commission in public session; those updates were also posted semi-monthly on the Port's website. The most current version of the Audit Response Action Plan is available on the Port's website. The Port will submit the final report to the State Auditor's Office on July 1st. A draft of that report is currently available on the Port's website.

In addition, Port staff members have been working to implement recommendations in the League's letter dated October 6, 2008. We appreciated the excellent feedback and began to implement your suggestions. Below is an update on those recommendations.

Mission Statement. As noted in your report and earlier in this response, the Port recently began a strategic planning process called the Century Agenda. Included in the Century Agenda process is the development of a new mission statement which will call out the organization's commitment to transparency and accountability.

CEO Responsibility. Port CEO Tay Yoshitani takes responsibility for implementation of reform throughout the organization and has been directed to do so by the Commission as part of the Audit Response Action Plan.

Ethics Code and Hotline; Training; Monitoring and Oversight. Deputy CEO Linda Strout is currently overseeing a complete revamping of the Port's ethics policies under a new Workplace Responsibility program. Believing that development of a robust, sustainable program warranted an investment of significant time and effort, in December, CEO Yoshitani directed all employees to review the current policies in the interim. Each Port employee read six workplace responsibility policies: Ethics Policy for Employees, Ethics Policy for Consultants, Fraud Awareness and Prevention, Anti-Harassment Policy, ICT Appropriate Use Policy and Whistleblower Policy. Employees were required to certify that they had read and understood each policy.

The new program being developed will build on existing policies, making them more readable, better integrated, and more direct as to employee expectations and responsibilities. Preliminary working drafts of the new policies will be completed by July 1st. Throughout July and August, the Port will gather input from internal and external stakeholders, including the Municipal League. The Port will then compile the input received and begin crafting final policies and a training program for all staff. The Port expects to roll out the full program before January 1, 2010.

Response to Municipal League Report, Attachment A

The “IRR vs. Cost of Debt” Criterion

In this section the report claims that the Port has substantial revenue bond capacity and could have issued all of its G.O. bonds as revenue bonds. This is based on an incorrect analysis that doesn't reflect how the Port actually determines revenue bond capacity. While it is true that the Port's first lien coverage ratio was over 3x in 2007, this is a consolidated Seaport and Airport calculation that also includes the effect of the tax levy. The Port actually engages in a more detailed calculation of Seaport revenue bond debt capacity (as described in the Plan of Finance) which is based on Seaport revenues only (since airport revenues are not used off airport), limits debt service to 1.5x coverage on all Seaport revenue bonds, regardless of lien, and excludes the tax levy in calculating coverage, since by policy the levy is not used to pay operating expenses.