

**MINUTES**  
**SPECIAL COMMISSION MEETING**  
**THE PORT OF PORTLAND**  
**February 12, 2013**

In response to due notice, a retreat of the Commissioners of the Port of Portland was held at 1:00 p.m. in the Chinook conference room of the Port's administrative offices located at 7200 NE Airport Way.

**QUORUM**

Commissioners present were Jim Carter, President, presiding; Peter Bragdon; Tom Chamberlain; Steve Corey; Bruce Holte; Linda Pearce; Paul Rosenbaum and Tom Tsuruta. Also present were Bill Wyatt, Executive Director, and participating staff members.

**AGENDA**

Commissioner Carter said the retreat would focus on three things: a review of the Port's two primary areas of focus; the long range financial forecast; and strategic metrics for FY2013-14.

Sam Ruda, Chief Commercial Officer, provided an overview of the Port's two primary Strategic Areas of Focus: Retain and Grow Key Services and Be a Regional Leader in Industrial Land Acquisition and Development.

Mr. Ruda discussed the Port's air service development key efforts, which include: retain international transoceanic service; retain transcontinental and trans-border flights; and recruit service to strategic markets. He noted that Portland is the smallest international gateway with direct service to both Europe and Asia. He said that because Portland is a small market, it is hard to support two international flights to Europe or Asia, so any changes or bad news can have an immediate and big impact on the viability of our international services.

Mr. Ruda reviewed Portland International Airport's (PDX) airline market share by seats, as well as the data for passengers and air cargo volume for Calendar Year (CY) 2012. He noted Alaska Airlines sees opportunity to grow the market in Portland and increase its position as a key hub market. He said that passenger traffic at PDX is growing faster than seat capacity.

Mr. Ruda provided a brief overview of the carriers calling PDX. He said that Alaska Airlines saw record profitability, passengers and growing markets for CY2012. He said that Southwest Airlines continues to maintain profitability, although the margins have decreased. Mr. Ruda said that Delta continues to focus on cost control and closing the Virgin Atlantic deal. He said FedEx ground is growing, but there is weakness in the domestic express market as well as in Asia and Europe.

Mr. Ruda discussed the marine line of business and noted that all key Port customers are secured under long-term lease arrangements. He discussed the auto line of business, including the Toyota lease. Mr. Ruda said that the Honda volumes were below historic levels due to production being sourced in the United States and Mexico instead of Japan.

Mr. Ruda discussed the investments being made at the marine terminals. He said that Canpotex is evaluating whether they should invest in Portland or Prince Rupert. Mr. Ruda also noted that Auto Warehousing is planning to expand their processing facility and Kinder Morgan is reviewing design options for a new storage shed, conveyor upgrades and ship loader.

Mr. Ruda discussed current business trends. He said that China currently imports 60 million tons of soybeans and the current estimate is that it will grow to 90 million tons. He said that the United States Department of Agriculture is forecasting big export potential for corn. Mr. Ruda said that staff believe this will be an area of opportunity and could be a factor in the future development of West Hayden Island. Mr. Ruda said that another opportunity being explored is maximizing our rail connectivity into the Canadian prairies. He said that while we focus on Burlington Northern Santa Fe and Union Pacific railroads, we should also include the Canadian Pacific in our broader rail strategy.

Mr. Ruda also discussed the Port's efforts in being a regional leader in industrial land acquisition and development. He reviewed the recruitment strategy and the sectors we are targeting for significant investment, jobs and tax base.

Mr. Ruda provided an overview of the Port's industrial properties and noted that our existing inventory of land located in Rivergate, Swan Island and Portland International Center is limited. He said our future portfolio of available land includes Troutdale Reynolds Industrial Park (TRIP) and Gresham Vista Business Park Trip (GVBP). Mr. Ruda discussed the status of transactions currently in the pipeline. He noted that market activity is beginning to increase.

Mr. Ruda also discussed the employment and income impact of industrial land acquisition and development as well as key initiatives for properties staff. Those initiatives include: close property transactions currently in the pipeline; the marketing of TRIP and GVBP; the annexation of WHI; legislative initiatives; and strategic acquisition due diligence. Mr. Wyatt said that the goal with WHI is to get it annexed and it is important we have a line of sight with the City of Portland on the mitigation strategy. He said that he is more optimistic of the likelihood of getting it entitled and annexed.

Cindy Nichol, Chief Financial Officer and Director of Financial and Administrative Services, provided an overview of the Port's financial structure, which comprises the General Fund and Aviation Fund. She discussed (1) General Fund cash management principles, reserves, and cash flow forecast; and (2) key metrics and debt capacity for the Aviation Fund.

Ms. Nichol said General Fund operating revenue is used to pay operating expenses of the Port's Navigation, General Aviation, Marine and Industrial business lines. Ms. Nichol said that property taxes help to improve the Port's financial picture, but we only use those funds for capital projects based on a policy established by Commission.

Ms. Nichol said that over the next 10 years, demands on the General Fund will exceed capacity. She said we expect our reserves to improve a bit, but we have many planned asset maintenance and capital projects. Ms. Nichol said the remaining General Fund cash balance after operating expenses and other planned expenditures is projected to be only \$85.7 million, which is significantly less than amounts needed to fund future land acquisitions, development and other legal obligations. Ms. Nichol said future grants and land sales (other people's money) would help. She said we have made a lot of progress in managing our costs, but we still need to continue to do so going forward.

Ms. Nichol said the Aviation Fund is very different from the General Fund, due largely to the ability to issue debt. She also noted that the Aviation Fund is governed by a bond ordinance, which establishes the airport financial structure, sets minimum requirements for financial performance and defines our flow of funds.

Ms. Nichol reviewed the short-term financial outlook for the Port overall as well as for the General Fund and the Aviation Fund. She said Portwide, we are looking at budget pressures due to a \$3.2 million Public Employee Retirement System (PERS) increase, a \$1.1 million increase in medical benefits and increasing pressure to add staff positions. Mr. Wyatt said we should have a clear path on these items over the course of the next 12 months. He said the Oregon Legislature will be acting on PERS reform and we will be taking internal steps around healthcare.

Ms. Nichol also reviewed the long-term financial outlook for both the General Fund and the Aviation Fund. She said General Fund operating expenses are increasing faster than operating revenues, and there is a reliance on land sales to cover net operating expenses and future investment needs. For navigation, we face the challenge of old equipment that will need to be replaced, and financing those assets is complex. Ms. Nichol discussed the Aviation Fund's positive outlook, and added that our current airline agreement will expire in June 2015 and will require re-negotiation. Ms. Nichol said she is bullish on the Aviation Fund, but we have to pay close attention to the General Fund.

The Commission and staff discussed the Lower Willamette cleanup costs, the supply and development of available industrial land including WHI, the PERS and health care cost challenges and options to consider to offset the increases.

Ms. Nichol led a discussion on the metrics for FY 2013-2014 strategic areas of focus, which are:

1. Retain and Grow Key Services
2. Be a Regional Leader in Industrial Land Acquisition and Development
3. Sustainable Financial Model
4. Portwide Environmental Strategy
5. Regional Leadership in Transportation Infrastructure
6. Strengthen the Port's Culture as a Strategic Asset

The Commission provided comments on the six areas of strategic focus as well as the attributes for each. They felt areas 2, 3, 4 and 5 were very clear and specific, but areas 1 and 6 were too vague and need more specificity in order to make sense when someone reads them. Mr. Wyatt said that staff would incorporate the Commission's comments into the Strategic Plan and share that with the Commission.

The meeting adjourned at 4:04 p.m.

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President

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Assistant Secretary

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Date Signed

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