

MINUTES
SPECIAL COMMISSION MEETING
THE PORT OF PORTLAND
March 9, 2010

In response to due notice, a retreat of the Commissioners of the Port of Portland was held at 1:00 p.m. in the Multnomah Conference Room at Portland International Airport.

QUORUM

Commissioners present were Judi Johansen, President, presiding; Jim Carter; Steve Corey; Diana Daggett; Mary Olson and Paul Rosenbaum. Also present were Bill Wyatt, Executive Director, and participating staff members.

Mr. Wyatt said the agenda today is to use our strategic planning process, which is in the late stage of completion, as a discussion guide. He said it is an opportunity for the Commission to get its hand on the steering wheel and give a nudge in one direction or the other, or give feedback or ask questions.

Mr. Wyatt said it is useful to note the decision to consolidate our administrative offices caused us to step up our efforts to integrate planning, operations and budgeting at the Port, all of which have occurred in their own individual ways but not necessarily connected to one another. He said we have taken very seriously the opportunity that presented itself with the consolidation, to look at ourselves in a different way and to think of ourselves as a single organization and not a group of unrelated parts.

Mr. Wyatt said we approached this with the help of a consulting firm, Coraggio Group, and the entire director group was pleased with the quality of their work. He said that although we could have done this on our own, sometimes it helps to have an expert to help you think through how to do it. Mr. Wyatt said this is the first time we have tried something like this, and while it was a little bumpy, it has been very successful so far. He said what we are trying to do is allow the leadership of the organization to actually put their hands on the steering wheel and provide some meaningful direction. Mr. Wyatt said the strategic planning process would drive the business planning and the budgeting. He said the planning process is important because it allows us to shape those things that we can shape and anticipate those things that are out of our control, and therefore to which we can adapt.

STRATEGIC PLAN

Scott Drumm, Research Program Manager, said there were several things we tried to achieve during the strategic planning process. He said we wanted something that would give us consistency from cycle to cycle; linkage between the strategic planning, business planning, operational planning and budgeting; clear prioritization of activities and spending to strategic priorities; and development of an improved method to track our progress.

Mr. Drumm discussed the strategic planning process, the outcomes and deliverables, as well as the mission and vision. Commissioner Rosenbaum asked that staff think about the Port's vision and how we define it, because if we hold true to the definition of our vision, it almost mandates new revenue streams to meet the Port's mission.

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Mr. Drumm provided an overview of the economic trends. He said Tom Potiowsky, the State Economist, has declared the recession is over in Oregon. Mr. Potiowsky's data showed that Oregon was likely to be in the first half of the states to recover from the downturn. One of his reasons for optimism was that we are only seeing the leading edges of the impacts of all the stimulus programs because the money did not start to flow until last fall. Mr. Potiowsky said job growth will lag the recovery a bit and he does not expect to see positive numbers in job growth until the middle of 2010. He said a more moderate recovery should begin in mid 2011, but it will not be until 2013 when will see employment levels that we saw back in 2007.

Mr. Drumm said that we had Tim Duy of the University of Oregon Economic Forum look at different aspects of the economy. A year ago, we talked about the need for the national economy to rebalance or restructure and focus more on capital investments and exports, and Mr. Duy thinks this still needs to occur because it would provide a potential for more domestic manufacturing and exports. Mr. Duy also looked at income levels in the Portland area and found that in 1997, the per capita income was at 109 percent of the U.S. average and in 2007, it was down to 101 percent. Mr. Duy feels the current growth sectors are health, education, leisure/hospitality, and with the exception of some elements of the health care industry, there were no high-income sectors overall.

Mr. Drumm said that the aviation industry did not have a good year; the International Air Transport Association was forecasting a global loss of \$11 billion in 2009. He said on the marine side, we are seeing the same declines in the container trends with the worldwide container lines expected to lose \$12 to \$15 billion in 2009.

Mr. Drumm briefly discussed the West Coast container trends. He said there is intense competition among West Coast ports and terminal operators. Mr. Drumm noted that U.S. West Coast ports have formed collaboratively to better market the West Coast advantages. Mr. Drumm discussed auto trends and said that auto sales are beginning to stabilize, but that annualized sales look to be about two-thirds of what they were in 2006. Mr. Drumm discussed the trends for both grain and mineral bulks, as well as the trends for industrial lands.

Mr. Drumm provided an overview of the Port's six strategic areas of focus, which the Port will focus on the next three to five years to accomplish its mission and vision. The areas of focus are:

- Retain and grow key services (Aviation and Marine)
- Build a sustainable financial model
- Be a regional leader in industrial land acquisition and development
- Implement a Portwide environmental strategy that supports the Port's requirements, generates savings and maintains/builds regional credibility as an environmental steward
- Provide leadership around regional transportation infrastructure
- Strengthen the Port's culture as a strategic asset

Commissioner Carter asked who our competition would be for the third focus area. Mr. Wyatt said there is no competition and this is an issue for us. He said when you talk to regional planners about creating additional industrial land, what you hear from them uniformly is that they are leery of this because they are concerned local governments will take in property that is intended for industrial land and then slowly convert it to other commercial purposes in order to generate additional property taxes.

Mr. Drumm briefly discussed the Port's key initiatives for each of the six focus areas and talked about the activities and initiatives requiring support from shared services.

Commissioner Johansen said that when she looks at the Port's six strategic areas of focus, she feels they should be sorted differently and suggested they be grouped by what we do and how we do it. She feels the two or three key strategies should be to retain and grow key services; be a regional leader in the industrial land acquisition and development; and provide leadership around regional transportation infrastructure, because this is what the Port does. Commissioner Johansen said that the other three areas of focus are equally important, but they are more "the how we do it, not the what we do." Commissioner Johansen said if the focus areas are displayed this way it suggests that everything has the same relation to the other, but it does not.

Commissioner Carter said that he believes the environmental area of focus is an element of business growth given we are in Oregon. He said it is part of a larger strategy as we develop land, look for new opportunities to acquire land or as we look for infrastructure, and should be viewed as a fundamental piece of what the Port does, not how we do it.

Commissioner Rosenbaum asked if part of the process includes asking the question, "Could I do it cheaper by farming it out?" Mr. Drumm said not explicitly, but those conversations did occur.

Mr. Drumm concluded his presentation with a brief review of the next steps and the strategic planning process for the next fiscal year.

Commissioner Johansen said that in her opinion, the Port's vision should be bolder. She said it feels like we need to bust out of the sides of the box a bit and define, in more aspirational terms, a bigger box so we can make a bigger impact on the region's economy. She said that the vision as it is stated does not inspire her to "take that hill or step things up a notch." Commissioner Rosenbaum said the question he had as soon as he read the vision was how we become an innovative, economic development engine and what kind of revenues we need to do that. Commissioner Johansen said we are in a great position to take things up a notch.

MARINE BUSINESS LINE REVIEW

Sam Ruda, Marine and Industrial Development Director, provided an update of the Marine business. Mr. Ruda said that container volumes were down 30 percent for calendar year 2009, which was a result of the recession and the loss of the K-Line service. He said our volumes do track with the broader national economy, but on a smaller base. Mr. Ruda said that we are projecting some growth for our container volume and the growth tracks consistently with the trends we are seeing nationally.

Mr. Ruda noted that on the auto side, one observation he would make in terms of our existing facilities is that we do not need to invest in docks or facilities because we have modern facilities. Mr. Ruda said that U.S. sales have suffered because of the recession, but we have long-term leases with Toyota Motors USA, Honda USA and Auto Warehousing Company. He said that to a large extent, our auto business already looks like what we are trying to achieve with the container business: long-term leases.

Mr. Ruda discussed the trends for grains and minerals and noted that grain remains strong and profitable. Mr. Ruda discussed the Port's position in the industrial land market. He said that we are the largest owner of industrial land in the region.

Mr. Ruda briefly discussed the key focus areas for Marine and Industrial Development, which include: new business development; minimize environmental impacts; asset management; Terminal 6 lease opportunity; retain and grow marine services; lease or sale of existing real estate assets; Phase 2 planning for TRIP; assessment of brownfield site acquisition and WHI annexation. Mr. Ruda also discussed the projected volumes for each line of business. He said that we are forecasting a 0.5 percent volume increase for the containers and breakbulk volumes are expect to decrease 21.7 percent. Mr. Ruda said auto volumes are expected to decrease 9.8 percent overall and mineral bulks volumes are expected to decrease 2.2 percent. Mr. Ruda noted that we expect a 9.4 percent increase in grain bulk and said we are forecasting the sale of approximately 14.6 acres in Troutdale.

AVIATION BUSINESS LINE REVIEW

Steve Schreiber, Aviation Director, discussed the key focus areas for Aviation, which include: maintain and enhance business revenue, create a sustainable airport strategic plan, engage the community, asset and capacity preservation, airport-wide customer service initiative and air service recruitment and retention.

Mr. Schreiber discussed PDX passenger trends. He said significant capacity reductions at PDX occurred in 2009 and additional cuts are planned for 2010. Mr. Schreiber said that based on recent discussions with selected airlines, further reductions in 2010 and 2011 are not anticipated and service growth will depend on the pace of an economic recovery.

Mr. Schreiber briefly discussed capacity changes. He said we lost international service to Frankfurt and also markets in Mexico, including Mexico City, Guadalajara, Los Cabos and Puerto Vallarta. He said we also lost service to Cincinnati, Orlando, Pasco, Redding and Santa Barbara, and had capacity reductions to San Francisco, Denver and Los Angeles. Mr. Schreiber said that on a brighter note, new service to Maui and Toronto was added during the year.

Mr. Schreiber discussed the aviation forecast for the next year for both passengers and landed weight, which drives our landing fees. He said that the adopted budget was 12.9 million passengers and we are projecting 13 million passengers, and it is a similar story for the landed weights.

Mr. Schreiber briefly discussed the challenges we are facing over the next 12 months. He said that we are starting with flat passenger activity at PDX and 50 percent of the revenue is generated by passenger activity. Mr. Schreiber said that at the same time, our revenue is flat but our expenses are going up. Mr. Schreiber said that we have underutilized facilities with fixed costs and many of the costs do not vary with activity.

BUDGET OVERVIEW

Vince Granato, Chief Financial Officer, provided a brief overview of the budget. He said that there are a number of factors influencing the budget that you can call assumptions as well as challenges. He briefly discussed those assumptions, which include: elimination of the furlough program; administrative merit increases; no PERS rate change; the move to HQ; Terminal 6 status quo; modest land sales for TRIP and Rivergate; a flat revenue forecast compared to FY2010; and the completion of large capital projects that will go on-line. Mr. Granato said that we are planning a bond issue in the fall, which will add additional debt. He said that the additional debt, although not optimally timed, is needed to finish the big projects.

Mr. Granato reviewed the financial targets. He said that for the General Fund, we wanted the operating income before depreciation to be breakeven or better and not have to dip into the savings account. He said that at the airport, we are hoping to keep the cost per enplaned passenger at \$12 and the coverage ratio at 1.7x.

Mr. Granato discussed the next steps related to the budget calendar. He said he will present the proposed budget in April and at that time, he will go into more detail on the revenues, expenses, FTEs and how we did against the targets.

Mr. Wyatt said one of the basic principles he is honing in on is not squeezing the budget to the point where it causes organizational disruption. He said we have challenges to be sure, but we are not facing a cash problem. He said next year would be a different story and we are essentially giving ourselves a full year to maximize the advantages of moving into the consolidated facility. Mr. Wyatt said he would be looking at the cost side to see what we can do to reduce our footprint. He said we have gotten the low hanging fruit, but now we have to do the heavy lifting to determine how we get more out of the consolidation. He said this would not involve layoffs, but will involve looking at how we do things and taking advantages of those openings as they develop.

Commissioner Johansen said that Mr. Wyatt has a platform, a very accomplished leadership team and a lean, mean organization, and now is the time to say, "I'm going to take that hill, step things up a notch, and here's how we're going to do it." She said we could try to cost-cut our way through everything, but we have to find something new; if it is not sustainable, it will not be sustained.

Commissioner Daggett said that what she heard from the directors was a very sober and good analysis of what the future looks like based on what we know today and what we fear the future could look like for a while. She said the outlooks from the economists, Tom Potiowsky and Tim Duy, painted a rather rosy scenario. She said we have to plan for the reality, not an opinion.

Mr. Wyatt said that passenger traffic at PDX reflects the local economy. When the economy is doing well, people are flying, and so this is one of the best economic indicators of the state in terms of what is really happening out there. He said that he would characterize traffic as sluggish at the moment and that tells you a lot about the economic performance of our region.

The meeting adjourned at 4:15 p.m.

President

Assistant Secretary

Date Signed

A complete audio recording of these proceedings is available at the Port of Portland administrative offices, 121 N.W. Everett Street, Portland, Oregon 97209.

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