MINUTES
SPECIAL COMMISSION MEETING
THE PORT OF PORTLAND
March 9, 2011

In response to due notice, a retreat of the Commissioners of the Port of Portland was held at 12:00 p.m. in the Chinook conference room of the Port's administrative offices located at 7200 NE Airport Way.

QUORUM

Commissioners present were Judi Johansen, President, presiding; Peter Bragdon, 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 intent of today's meeting is to gain a better understanding of the expansion of the Panama Canal, as well as to go through the Marine and Industrial Development (MID) and Aviation business lines to talk about how they are doing and how that relates to our budget.

POTENTIAL IMPACTS OF PANAMA CANAL EXPANSION

Steve Rothberg and Nolan Gimpel of Mercator International led a discussion on the expansion of the Panama Canal and the implications the expansion may have on West Coast ports.

Mr. Rothberg provided background information on the Canal expansion project. He said the Panama Canal Authority is scheduled to complete the $5.25 billion project including a new set of locks in September 2014. He said these larger locks, together with concurrent construction to deepen and widen the Atlantic and Pacific entrance channels and the navigation channel linking the locks, will increase the throughput capacity of the waterway.

Mr. Rothberg said the Panama Canal is utilized by vessels serving multiple international trade lanes, for both container traffic and non-containerized commodities. He said from a U.S. perspective, the Canal is especially critical for trade between the following areas: the East/Gulf Coasts and Asia; the East/Gulf Coasts and the West Coast of South America; the East/Gulf Coasts and Australia/NZ; and the West Coast and Europe.

Mr. Rothberg said from a Pacific Northwest (PNW) and Portland perspective, one potential impact of the new Canal locks is for more PNW – Europe/Mediterranean traffic to be routed on all-water vessel services rather than on land-bridge stack trains to/from US East Coast ports. He said the incremental volume potential from this traffic flow is relatively small. Mr. Rothberg said based on current deployment patterns and economics, the trade volume between the PNW and Europe will not be large enough to support very large containerships for many years. He noted that for PNW container ports, the greatest potential impact of the Canal's expansion relates to possible diversion of Asia-Ohio Valley traffic.

Mr. Rothberg said the optimal routing of Asia-origin containers destined to Chicago, St. Louis and other Midwest markets should still be via West Coast ports and connecting stack-train services. He said nonetheless, markets such as Columbus, Cleveland and Cincinnati could become less expensive to serve on all-water services to selected East Coast ports such as Norfolk and New York.

Mr. Rothberg said the Canal expansion project will make it more difficult for Portland and ICTSI to attract first inbound port calls of niche transpacific vessel services. Mr. Wyatt said this does not represent an immediate threat because Portland has not had first port of call service to date, but might want this in the future.

Mr. Rothberg said another potential risk for Portland could be some export grain traffic from Upper Midwest states that now is shipped from Portland to Asia being diverted to South Louisiana ports for loading onto small Cape-size ships. He said the expansion project, when complete, will allow dry bulkers that can carry about 120,000 tons to transit the Canal. Mr. Rothberg said he sees this risk as relatively small, because few grain terminals on the lower Mississippi River have the water depth to load Cape-size ships and few grain terminals in Asia have the infrastructure needed to accommodate Cape-size ships.

Mr. Rothberg said that it was increasingly likely that the Powder River Basin coal would be exported through the PNW in the coming years. At the same time, due to the Canal expansion, Cape-size vessels serving the Gulf ports could capture some of this cargo.

INDUSTRIAL LAND DISCUSSION

Keith Leavitt, GM Real Estate Property Manager, provided an update of the Port's real estate acquisition and outlook. He said the industrial market has stabilized; growth is still slow, speculative development is still on the sidelines, but user-related development is picking up steam.

Mr. Leavitt said the Port's business park land supply is at a historic low. We have two large sites ready for development in our portfolio and we are currently entertaining discussions on both sites. Mr. Leavitt said large development-ready sites are also in low supply in the region. He noted Governor Kitzhaber and regional leaders have made this issue an area of focus. Mr. Leavitt said there have been discussions with Metro and the State about the need to identify these strategic sites, assess the readiness and accelerate permitting processes to bring those sites on line.

Mr. Leavitt said brownfield redevelopment is also very topical. He described the role of the Port as a "patient developer" that could deal with the difficult issues posed by large parcel brownfields, which would also need funding and possible regulatory reform.

Mr. Leavitt reviewed the large parcel industrial sites that are ready today and those that will be ready in 5 to 10 years. Mr. Leavitt said things the Port needs to take into consideration when looking at acquisitions include whether to look inside or outside the Port district, because market demand and land scarcity are highest in the Metro region and Willamette Valley. We also need to assure that there is suitable land available for trade and freight related uses. Mr. Leavitt said our partners in the private sector who acquire and develop property tell us that they see a need for the Port to play this kind of role.

Mr. Leavitt said that as we look at acquiring sites over the next few years as well as our investments in the next phase of Troutdale Reynolds Industrial Park (TRIP), we will need to find some creative mechanisms to leverage other public funding. This is particularly true if the region and the state says it is important to acquire and hold onto these strategic sites. Mr. Leavitt said this could require a level of investment beyond what the General Fund may have.

Mr. Leavitt reviewed the next steps and noted we would need to find some transportation dollars to help fund infrastructure in and around TRIP. He said we plan to market our remaining strategic sites at Rivergate and Portland International Center and to support brownfield legislation.

MARINE AND INDUSTRIAL DEVELOPMENT UPDATE

Sam Ruda, Marine and Industrial Development Director, provided a high-level overview of the Marine business. He said carriers have seen a return to profitability in 2010 and the outlook is for continued but slower growth.

Mr. Ruda said nothing has changed in the composition of the Port's auto franchise and we did see a rebound for FY 2010-2011. Mr. Ruda said Honda has been stable and growing. He said Toyota is forecasting a stronger year in the second half of the calendar year.

Mr. Ruda said soda ash volumes have remained stable throughout the downturn and potash dynamics correlate favorably to the agriculture commodity price increases. Mr. Ruda said grain exports remain strong and stable. He said FY 2010-2011 is likely to be similar to FY 2009-2010 due to the continued adverse weather conditions in other grain supplying regions such as China, Russia and South America.

Mr. Ruda presented the budget volumes for each of the lines of business. He said we are forecasting some growth for containers, autos, mineral bulk and grain bulk. Mr. Ruda said we are also forecasting land sales of approximately $6 million.

Mr. Ruda briefly discussed what success would look like for MID in FY 2011-2012. He said that would include: Kinder-Morgan Terminal 4 lease renewal; Columbia Grain facility expansion and ground lease renewal; maximize value proposition for Portland consolidation of Hyundai/Kia; West Hayden Island annexation with workable Plan District; and new container service with ICTSI.

AVIATION INDUSTRY OUTLOOK AND BUSINESS PLAN OVERVIEW

Steve Schreiber, Aviation Director, provided a historical overview of the aviation industry trends, including passenger traffic, seat capacity and oil/jet fuel prices. He also provided an overview of the profitability of U.S. commercial airlines.

Mr. Schreiber discussed the consolidation of the domestic airlines. He said recent mergers and alliances included: Delta/Northwest; Frontier/Midwest/Republic; Air Tran/Southwest; Continental/United; and SkyWest/ASA/ExpressJet. Mr. Schreiber noted the possible merger of Delta and Virgin Atlantic.

Mr. Schreiber said PDX is well served for a medium hub airport in a city of our size, but we are still focusing on service improvements. Our key domestic target markets include: Washington/National, Baltimore, Milwaukee, Florida markets and Austin. Mr. Schreiber said the key international target markets that are on our radar screen include Mexico City, Puerto Vallarta, Los Cabos and Cancun. Mr. Schreiber said on the cargo side of the business, we are keenly focused on bringing new nonstop service to Asia.

Mr. Schreiber discussed the projected capital expenditures and the capital sources. Mr. Schreiber said we have made many improvements the last four or five years, and while the needs for capital expenditures are not going away, they are starting to decline and moderate. He said most of the work would focus on taking care of what we have.

Mr. Schreiber reviewed the operating expenses and revenues for PDX. He said a lot of what is in the operating budget is personal services and those costs are going up due to health care costs and Public Employees Retirement System (PERS). He said the challenge is to keep a lid on the operating expenses as much as possible. Mr. Schreiber said on the revenue side of the equation, the airline rent and landing fees make up half of the revenues coming into the Port, and parking and rental car revenues are the other two major slices, followed by our concessions.

Mr. Schreiber reviewed the goals for landing fees and cost per enplaned passenger. He said he wants to keep the costs to the carriers relatively stable and the forecast for the cost per enplaned passenger is to keep it around the $12 mark throughout the next five-year period.

Mr. Schreiber said in summary, we are expecting modest growth industry-wide and, with fuel being the wild card, we need to keep our eye on fuel prices to see what happens. He said PDX is well positioned and we do not have a need to add capacity in terms of facilities, which will allow us to keep our cost structure stable over the next five years.

Mr. Schreiber said in terms of the Hillsboro and Troutdale airports, the expectation is for modest growth in operations. He said the question mark is fuel prices and the effect of fuel prices on demand. He said the big project in General Aviation is a new runway and taxiway at Hillsboro Airport; and other than that, we will focus on asset management.

STRATEGIC PLAN RESPONSE TO INDUSTRY AND PUBLIC POLICY TRENDS

Vince Granato, Chief Financial Officer, said everything discussed today has been addressed in our strategic plan. Mr. Granato provided a brief overview of the strategic plan, which consists of six strategic areas of focus.

Mr. Granato briefly discussed the industry trends, which guided us through the strategic planning process. He said one item that didn't get much attention is public budget shortfalls that are on the horizon at all levels of government and will likely impact many of the programs the Port has relied on in part to meet its capital needs or support its initiatives.

Mr. Granato said there are things to be aware of that will affect the budget for 2012. He said PERS will impact us Portwide; the new PERS assessment takes effect on July 1, 2011 and covers the market returns form 2008 and 2009, which was not a great period of time in the market. We are seeing a $3 million increase in our PERS costs for this two-year period. Mr. Granato said a portion of our healthcare costs declined because we went out for a Request for Proposal and moved to a different carrier. He noted this is a one-time opportunity and we do not expect that to continue in the future. Mr. Granato said one of the other things driving the budget is a declining capital outlay, moving to asset maintenance rather than development for the Port.

Mr. Granato said we are seeing growth in all of the business lines. He noted that given the focus on real estate development, there is money in the budget to acquire property. Mr. Granato discussed the impacts the International Container Terminal Services Oregon, Inc. (ICTSI) lease will have on the budget.

Mr. Granato said there will be a detailed budget presentation and public hearing at the April commission meeting.

Commissioner Johansen provided a brief summary of the meeting. She said the Port's strategic plan for the next three years reflects a change from where we have been. Many key capital investments have been made and we have implemented strategic partnerships and relationships, such as ICTSI, that set the stage in a positive way going forward. Commissioner Johansen said we are now transitioning into a strategy that is reflective of a need to grow the economy and play our part in that, in particular with respect to regional economic growth, and we have developed key strategic areas of focus to ensure that happens. Commissioner Johansen said with respect to aviation, we will continue to find opportunities to enhance the global gateway and grow our existing business.

Commissioner Johansen commended staff for having a tight, well thought out plan. She said as she thinks of the strategic plan, it appears we have our act together, but what concerns her is what we are not thinking about, whatever that may be.

Mr. Wyatt said as he looks back over the last decade, our greatest struggles have been due to forces beyond our control, and while you do not plan for things like that, you can plan that there is another one out there.

Commissioner Olson said during her ten years on the Commission, the difference between when she started and today is stark in the sense that the directors are all going in the same direction. Commissioner Olson said all the credit goes to Mr. Wyatt's leadership; she said he brought a vision to the Port that was lacking and he has been surgical in his selection of his leadership and it is clear their loyalty to him and his vision is in place.

Commissioner Johansen concluded the meeting with a thought-provoking video, "Did You Know? We are living in exponential times."

The meeting adjourned at 4:12 p.m.

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President

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Assistant Secretary

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Date Signed

A complete audio recording of these proceedings is available at the Port of Portland administrative offices, 7200 NE Airport Way, Portland, Oregon 97218.

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