

**MINUTES  
SPECIAL COMMISSION MEETING  
THE PORT OF PORTLAND  
November 13, 2007**

In response to due notice, a retreat of the Commissioners of the Port of Portland was held at 12:30 p.m. in the Commission Boardroom of the Port's administrative offices at 121 N.W. Everett Street.

**QUORUM**

Commissioners present were Judi Johansen, President, presiding; Ken Allen; Steve Corey; Bruce Holte; Diana Daggett; Mary Olson; Paul Rosenbaum and Bill Thorndike. Also present were Bill Wyatt, Executive Director; participating staff members; and representatives from Morgan Stanley and Moffatt & Nichol.

**TERMINAL 6 LEASING INITIATIVE**

Commissioner Johansen said the purpose of the Commission retreat is to discuss the future options for Terminal 6.

Bill Wyatt said the Port continues to operate Terminal 6 because, until recently, we have not had many other choices. There have not been many offers by third parties to operate the facility on any basis that would be successful or remunerative to us, but this has changed with the increase in global trade activity on the West Coast. Mr. Wyatt said the level of interest we have seen, not only in our own facility but others, suggests that market forces are auguring well for us to probe interest in a long-term commitment.

Mr. Wyatt said this is important to us because if you look at the Port's General Fund, you see a challenging portrait. He said we have sold or leased most all of the land we currently own, so we do not have that land base from which to fund much of our capital requirements. Mr. Wyatt said one issue we are facing is how to consistently acquire the demanding capital requirements needed to make the kinds of improvements necessary to maintain and operate a 21st Century container terminal. We have seen ups and downs in business. Currently we continue to be on an up side and this relates directly to why this is an attractive time to look at new options. Mr. Wyatt said we find ourselves operating on a global scale in a business that is itself global, without global resources, which is very challenging. He said having a more reliable source of revenue is important for us to continue to provide leadership in this important business area and region.

Mr. Wyatt said Terminal 6 is the only container facility on the Columbia River and in the State of Oregon, so it is a critical piece of public infrastructure and the public is going to want to know that we have thought about this carefully and considered the public interest. He said he is extremely pleased with the quality of the internal and external team Sam Ruda has assembled, as well as the quality of work that has been developed so far.

Mr. Ruda, Marine and Industrial Development director, provided a brief overview of a two-day strategic review of our container line of business. A fundamental question that was addressed as part of the strategic review of Terminal 6 is, can the existing container franchise be positioned to achieve long-term and sustainable volume growth? While the Port has achieved recent growth in our container line of business, management should be asking whether the existing operating model is optimal. The Port has in the past reviewed its operating model and

assessed the commercial viability of a leased facility versus a port-operated facility. For a variety of reasons, the Port elected to maintain its current model, which remains the only port-operated container facility on the U.S. West Coast.

Mr. Ruda noted that over the last year, the Port has been in an active due diligence period reviewing the market, our own terminal capacity and long-term capital requirements, as well as looking at the broader industry, including port infrastructure developments on the West Coast, including Canada and Mexico.

Keith Leavitt, project manager, said the objective of today's meeting is to provide the Commission with a full briefing and receive feedback to ensure that staff and the Commission are aligned as we go forward with the process. Mr. Leavitt introduced the project team and the consultant team. He said what we are looking for from this project is to stabilize our revenues, increase our volumes, improve facility utilization, capital commitments and improve our access to international markets for our regional shippers. Mr. Leavitt provided a summary of the project work completed to date to evaluate whether and how to pursue a change in the operating model. He said the team has thoroughly evaluated the following operating models: existing Port-authority operating model; a more conventional 20- to 30-year landlord lease; and a long-term concession of 50 or more years. Mr. Leavitt provided a brief overview of Terminal 6 and the markets that we currently serve.

Walter Kemmsies of Moffatt & Nichol addressed the Commission to report on the study they performed for Terminal 6. He said the role of the independent market consultant is to establish whether a viable market exists and whether a feasible investment strategy can be established on the back of the market viability analysis. Mr. Kemmsies said the answers to the two questions are positive. He said Portland is developing the characteristics that resemble other major West Coast ports. Mr. Kemmsies said the Port would be helped by transportation network capacity issues that are emerging at other West Coast Ports. He said there is a need for the terminal to position itself to benefit from these trends and that their study showed it could do so in a financially viable way.

Mr. Kemmsies provided a high-level overview of the container market and the macro economic drivers associated with container growth projections. He provided an analysis of the local market and Portland's container throughput. Mr. Kemmsies discussed the West Coast container terminal capacity as well as the intermodal capacity. In summary, Mr. Kemmsies said imports will drive future U.S. and Portland container volume growth. He said terminal and intermodal capacity will become increasingly scarce, causing volumes to shift to the Pacific Northwest and Portland. Mr. Kemmsies said Portland could compete in key national markets, especially in northern tier states, and there is opportunity to recapture local market cargo as Portland becomes an attractive intermodal port.

Mike Lapson of Moffatt & Nichol said sustaining the volume growth discussed today and enabling intermodal growth will depend on the capabilities of the infrastructure at the terminal. Mr. Lapson reviewed the current infrastructure at Terminal 6 and discussed the key components of the development plan.

Rob Collins of Morgan Stanley addressed the Commission as the Port's sale side financial advisor. He said that in working with the management team, Morgan Stanley identified five elements key to success for Terminal 6: sustained growth and expansion; stable revenue stream; active oversight; global recognition; and stimulus to the local economy. Mr. Collins provided an overview of the strategic alternatives. He said to achieve its strategic objectives,

the Port should consider three primary alternatives: Port as operator (status quo, but not sustainable), landlord lease and long-term concession model. Mr. Collins discussed the benefits and considerations of each alternative. He noted that in the work that Morgan Stanley has done, they consider the long-term concession model will generate the most interest. Mr. Collins discussed the key criteria on which the Port's decision-making framework should be based.

Mr. Collins discussed the current infrastructure market environment. He said at this time there is an imbalance of supply and demand for infrastructure capital, and ports are a particularly attractive asset class considered by aggressive infrastructure buyers. Mr. Collins said infrastructure investors continue to demonstrate a high level of demand for project financings.

Mr. Collins said Terminal 6 has some strong and compelling investment advantages, including a 33-year operating history, the Port's position in a region of economic strength and growth, lack of congestion to inland routes, on-dock intermodal connectivity, ability to increase local market share, physical capacity to grow, and a strong and proven public sector partner in the Port. Mr. Collins reviewed the potential next steps and timing.

Commissioner Johansen said she has a sense that the more risk we keep the more we will be able to optimize what we get out of this in terms of money. She said the Commission should have some discussion around what is that optimal balance of risk and how it relates to the price we get.

Commissioner Corey asked if the team considered having the Port keep a portion of Terminal 6 as a multi-user facility. Mr. Ruda said the team looked at that but because of the limited acreage involved, it was determined that Terminal 6 does not lend itself to a bifurcated facility.

Mr. Leavitt concluded by stating that a change in the Terminal 6 operating model can better position the Port and region for long-term container growth. He said a long-term lease of Terminal 6 offers a valuable proposition to a private operator and to the Port. A market scan revealed specific interest among key players in the marine and infrastructure investment sectors. Mr. Leavitt said his recommendation is to go forward with further preparation and structuring of the procurement process and report back to the Commission in December with a Phase II contract for Morgan Stanley.

The meeting adjourned at 3:41 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.

This page intentionally left blank.