MINUTES
SPECIAL COMMISSION MEETING
THE PORT OF PORTLAND
December 9, 2008

In response to due notice, a retreat of the Commissioners of the Port of Portland was held at 1:00 p.m. in the Flavia Salon at Marylhurst University, 17600 Pacific Highway.

QUORUM

Commissioners present were Judi Johansen, President, presiding; Peter Bragdon; Steve Corey; Diana Daggett; Bruce Holte; Mary Olson and Bill Thorndike. Also present were Bill Wyatt, Executive Director, and participating staff members.

Mr. Wyatt said given the global economic challenges we are facing it was important to take the time today to focus on the state of the Port and our business activity, as we see it today. Mr. Wyatt said following the economic update by Scott Drumm, we will move into operating areas and take a look at the economic factors influencing aviation and marine, as well as the proposed budgets for Fiscal Year 2009, compared to the adopted budgets for Fiscal Year 2008.

ECONOMIC UPDATE

Scott Drumm, Research Program Manager, provided an update of the economy, both globally and locally. He said the world is slowing down economically, particularly in the developed countries. Mr. Drumm provided an overview of the international economic trends. He said looking at 2009, the US economy is expected to underperform its peers, after outperforming them this calendar year. Mr. Drumm said one of the things that kept the US, the Northwest, and Oregon in particular, buoyant in the early part of the recession was exports, due largely because of the favorable exchange rate, but those advantages are beginning to wane as the dollar has begun to appreciate.

Mr. Drumm briefly discussed the international trade trends as well as those for Oregon. He said Oregon agricultural exports generated more income in the first half of 2008 than in all of 2006. He said agricultural shipments to Japan skyrocketed to 101 percent. Mr. Drumm said technology was another boon product for Oregon, with shipments of computers and electronics to China up 111 percent. Mr. Drumm said when looking at the US economy, you can pick any indicator and it looks like the economy has fallen off a cliff. He said one of the reasons for the steep decline is the underpinnings of the most recent recovery from the last recession was built on consumer spending rather than a balance between consumer spending and capital creation. He said this created levels of unsustainable growth that are now coming due to us. Mr. Drumm said most economists are expecting a very steep decline with a very slow recovery, probably not occurring until late 2010. He said according to the State's most recent forecast, it will probably be early 2011 before Oregon begins to grow at a more normal pace. Mr. Drumm said we can also expect unemployment rates to reach 8 percent or more nationally.

Mr. Drumm said the forecast for Oregon was recently released and the State is officially in a recession. He said they expect employment levels to decline through Q3 of next year, with some sort of recovery occurring in 2011. Mr. Drumm said retail, finance and professional services would lag the national economy as a whole in 2009. He said key sectors such as wood products, transportation and technology would take a hard hit, while others, such as education and health services, will outperform, which in this environment, means it will be "less bad." Mr.

Drumm said unlike the past several years, the State is more closely mirroring US economic trends. Mr. Drumm concluded with a brief outlook of the regional labor market. He said it will be a tough couple of years for the State.

AVIATION BUSINESS OUTLOOK

Mary Maxwell, Aviation Director, said passenger volumes are decreasing and the demand is declining at a faster rate than capacity reductions. She said we have seen a decline in traffic that has increased more rapidly than we anticipated. The budget was set this year based on a 2.5 percent increase in traffic and we are now projecting a decrease in traffic of 8.5 percent. Ms. Maxwell said the cost per enplaned passenger is increasing at PDX due to the decreased passenger volumes and the goal is to keep the airline's net costs stable. Ms. Maxwell said parking and concession revenues are directly tied to passenger volumes and parking is down 5.7 percent and food/beverage and retail is down 1.4 percent.

Ms. Maxwell noted that air cargo volumes are falling precipitously; domestic volumes, representing more than 90 percent at PDX, are off 15 percent fiscal year-to-date due to fuel prices, compounded by the slowing economy. She said FedEx and UPS volumes have declined significantly in the last year.

Ms. Maxwell reviewed the budget assumptions and targets for FY08-09. She said we continue to focus on managing costs and increasing revenues in order to maintain competitive rates and charges. Our target is to keep the cost per enplaned passenger under $11. Ms. Maxwell said we are committed to meeting and/or exceeding the airline cost center expense target established under the Airline Operating & Lease Agreement, and as such, are working to keep the expense growth under 4 percent. Ms. Maxwell noted on the capital side, we are continuing to manage the airline cost center $299 million capital expenditure cap.

Ms. Maxwell discussed the adjustments made to the aviation expense budget. She said expenses have been reduced by 3.5 percent, or $3.4 million. Ms. Maxwell said there were big adjustments made to personal services and they also looked at how they do their maintenance work and have reduced overtime charges by better planning and higher productivity.

Ms. Maxwell provided a budget summary for both the airline cost center and the Port cost center, as well as a breakdown of the expense categories for both cost centers. She also provided a budget summary of the Port cost center and the expense categories. Ms. Maxwell discussed the revenue sources for the Port cost center by business lines. She said parking revenues are the largest revenue source. Ms. Maxwell said looking at the overall financial indicators for PDX, we are under the target for revenue sharing. She said we will reduce revenue sharing paid to the airlines by 25 percent of the amount we are under the target, which is about $0.9 million. Ms. Maxwell said the cost per enplaned passenger rose about $0.54 due to a reduction in enplaned passengers.

Ms. Maxwell provided an update of the key projects budgeted for FY09, which include: HQP2, inline baggage screening system improvements (BSI), Airport Way widening and rehabilitation; North runway extension (NREX); central apron reconstruction; and deicing system enhancements. Ms. Maxwell said in 2010, the focus will be on asset management and will continue to be so for five to eight years.

Ms. Johansen said every board she sits on is looking at their capital and slashing anything that has not started and those that have started are being pared down. She asked what the Port's discussion has been about cutting or delaying projects. Ms. Maxwell said they looked at the BSI project, HQP2, NREX and deicing. She said they could not stop the BSI project; activity is low so it is a great time to be doing it, not to mention they have the funding lined up to do it. Ms. Maxwell said delaying the NREX project is not an option because of the deterioration of the South runway; they have to extend the North runway before they can rehabilitate the South runway. Ms. Maxwell said we are under a DEQ mandate to meet their standards by 2012, so the deicing project cannot be delayed. Ms. Maxwell said these are all critical infrastructure projects that are required. Mr. Wyatt said they did eliminate approximately $12 million in projects.

MARINE BUSINESS OUTLOOK

Sam Ruda, Marine and Industrial Development Director, said the current world economy has brought several changes to the marine industry as a whole. He said we are seeing a slowing in cargo demand and excess vessel capacity, and the overall outlook for 2009 is not favorable.

Mr. Ruda said as with aviation, marine has a zero-based budget philosophy – the budget is based on the strategic and business plans and is developed and justified from the ground up. Mr. Ruda reviewed the marine budget assumptions and targets for FY08-09. He said container volume is the main driver for the marine business and represents 63 percent of marine's revenue. Mr. Ruda said there was a significant downturn in container volumes nationally beginning in Spring/Summer 2008. He said over the last few months, carriers have been withdrawing capacity and services from North America. Mr. Ruda said for the proposed FY08-09 budget, marine forecasted about 144,000 throughput, but with the decline in container volumes, the revised budget assumes a 9.4-percent decline.

Mr. Ruda said there has been a significant decline in auto sales forecast for the US in 2008. He said the original US auto sales was projected to be 16.5 million, which is a 10-year average of consumption, but it is now forecast at 11 million, a 33-percent decline. Mr. Ruda said the weak economy and credit issues are forcing order cancellations back to the manufacturer. Mr. Ruda said while auto volumes are projected to decline, about 80 percent of the business line revenues are fixed/minimum rents. He noted the declining volumes would lead to reduced dockage revenue.

Mr. Ruda said in the bulks and breakbulk line of business, despite some softening from near historic highs last year, demand for US wheat remains strong. Mr. Ruda said potash revenue is expected to decrease when compared to the FY08-09 adopted budget, due to the anticipated 15-percent declines in volumes. He said soda ash revenue volumes have been tracking to budget, so we do not expect any changes. Mr. Ruda noted that although steel volumes are projected to decline about 30 percent compared to the FY08-09 adopted budget, revenue is anticipated to track fairly close to budget due to some of the cargo coming in by rail.

Mr. Ruda said total marine revenues are projected to be down about $4.2 million from the FY08-09 adopted budget. He said total expenses, excluding the marine environmental accrual, are down $2.8 million, or 4.7 percent, from the adopted budget. He said the primary reason is due to a $1.8 million decline in longshore expenses, as well as an estimated $400,000 decrease in allocated support. Mr. Ruda said marine is projected to have an $11.6-million loss, $1.5 million higher than the FY08-09 adopted budget loss of $10.1 million.

Mr. Ruda also provided a brief update on industrial development. He said industrial development revenue is now projected to be up $13.3M due to the impact of the FedEx land sale of $17 million, which closed in October of 2008. Mr. Ruda said expenses are also up $12.8 million, primarily due to the increase in the Cost of Property associated with the FedEx land sale.

Mr. Ruda discussed the primary capital projects for FY09: Reynolds Improvements, Ramsey Rail Improvements, Terminal 5 Berth 503 Dock Rehab and North Lombard Widening. He said it is important to note that for a number of the projects, they have loans and grants in place to reduce the impacts to the General Fund. Mr. Ruda said the MID department is also pushing out capital projects for future years. He said this is not an easy task, but they are managing it.

Mr. Wyatt said all of our business lines are under pressure and that has complex affects on the organization. He said for the first time since he has been with the Port, we are seeing an extended impact in aviation. Mr. Wyatt said the budget actions we are in the process of taking now are, in his opinion, adequate to deal with the financial situation and the business as we currently see it. He said if we experience another significant disruption to business, we will then have to move up to the next level of budget and fiscal response within the organization to make sure we remain competitive to our customers and are holding on to what cash reserves we have to the greatest possible extent so we can survive until things turn around.

Commissioner Johansen said she is impressed but not surprised by what Bill and his team have done. She said it is hard to plan for the unknown, but we need to stay ahead of the situation the best we can and she is confident Bill knows what he needs to do.

The Commission discussed the Task Force process, meeting frequency, attendance and whether the meetings were becoming obsolete. The Commissioners agreed the meetings were important and agreed to leave the Aviation and Marine and Industrial Development Task Forces as is. They also discussed the Finance and Administrative Task Force and agreed that the items discussed at that Task Force were better suited for the Commission Officers, so that Task Force will be disbanded.

The meeting adjourned at 5:05 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, 121 N.W. Everett Street, Portland, Oregon 97209.