

# AAPA 2013 Marine Terminal Management Training Program

## “Survival and Negotiating Strategies”



 **PORT OF PORTLAND**  
Possibility. In every direction.™

Sam Ruda  
Chief Commercial Officer

September, 2013

# Port of Portland – Structure

- Consolidated Public Port Authority-Airport and Marine
- Organizational Structure
- Financial Structure
- Maritime Model vs. Aviation Model
- Strategic Issues
- Port Response to Strategic Issues
- What We Are Working On





# Port of Portland Footprint





# Port of Portland Management Structure

## Port Commission

Jim Carter  
President

Bob Levy  
Vice President

Paul Rosenbaum  
Treasurer

Diana Daggett  
Secretary

Peter Bragdon  
Commissioner

Tom Chamberlain  
Commissioner

Bruce Holte  
Commissioner

Linda Pearce  
Commissioner

Tom Tsuruta  
Commissioner

## Senior Management Team

Bill Wyatt  
Executive Director

Open  
General Counsel

Pam Thompson  
Executive Assistant

Vince Granato  
Chief Operating Officer

Tom Imeson  
Public Affairs Director

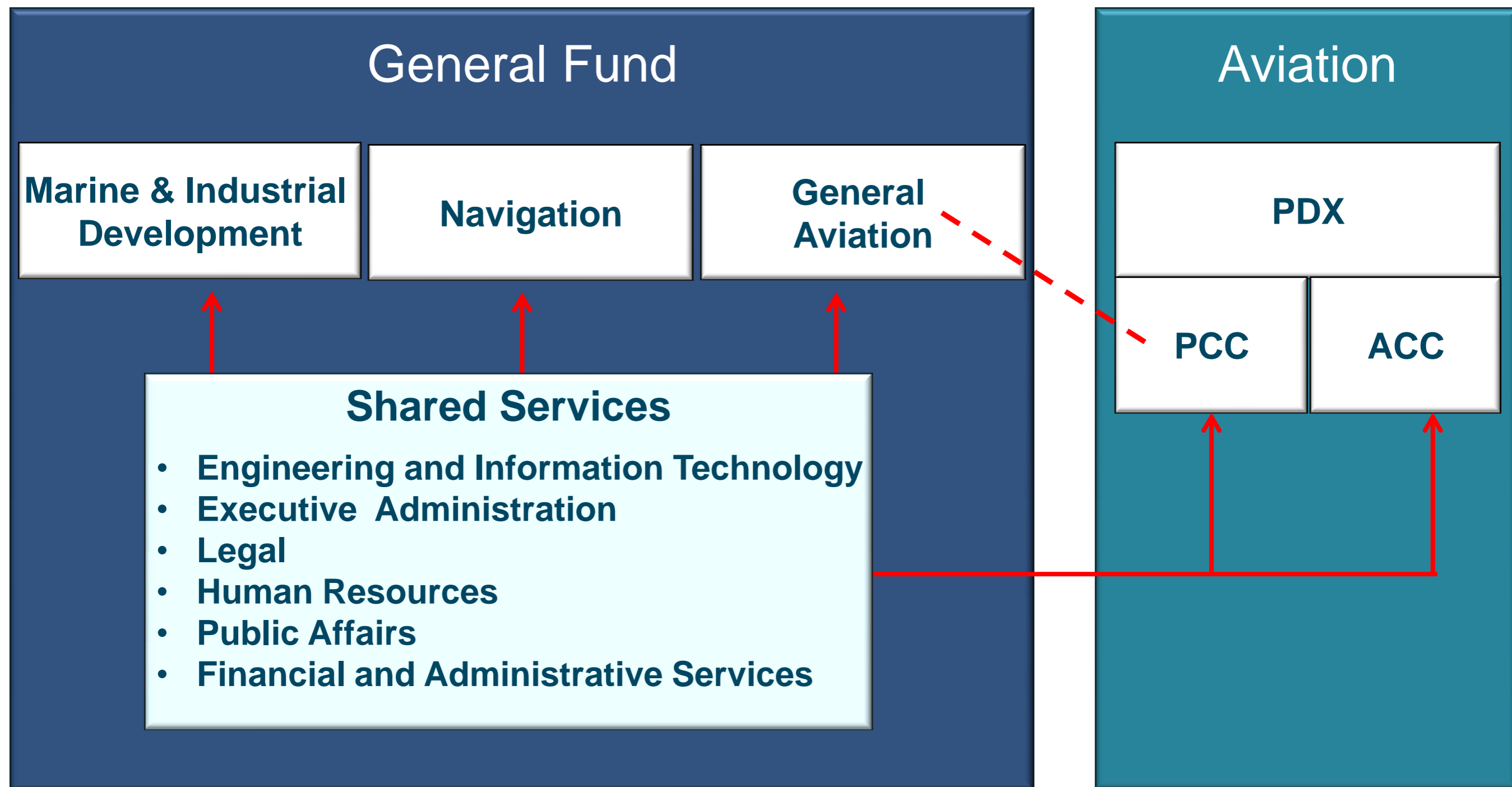
Cindy Nichol  
Chief Financial Officer

Sam Ruda  
Chief Commercial Officer

Stan Watters  
Development Services & IT

Bobbi Stedman  
Human Resources Director

# Port Financial Reporting Structure





# Consolidated Port Headquarters



# Some Key Differences between Maritime and Aviation

## AVIATION

- Federal Government has a distinct planning and financial role in airports: master plans
- Federal taxes support airport infrastructure investment: AIP
- PFC's and CFC's allow for bond financing in support of infrastructure
- "You Fly, You Pay"
- Foreign carriers prevented by law from participating in domestic service
- Limits on foreign ownership of domestic carriers
- Airlines incorporate roundtrip economics into pricing
- U.S. bankruptcy laws have allowed industry to re-structure
- Labor militancy has been calm: for now

## MARITIME

- Federal Government has a generally weak and fragmented role
- Federal Government has no sustained or distinct role in infrastructure development
- HMT applies to only inbound cargo and distribution of funds is limited to navigation (water ways) infrastructure (new legislation pending)
- Funding of maritime infrastructure has no consistent framework: varied approaches
- Mostly non-U.S. flag participants for international routes
- Back-haul economics in container segment presents on-going challenges
- Systemic and unresolved waterfront labor issues





# Implications of Port Financial Structure

- ◆ Aviation financial model allows for long term and sustained capital investment:
  - can access capital markets through bond issuance
  - coverage ratios are one way to preserve credit worthiness
  - ability to impose usage fees to pay for infrastructure
  - a sustainable and predictable revenue stream can support bond financing
- ◆ Maritime model has no distinct federal funding nexus except for navigation and waterways maintenance:
  - Port authority may be exposed to increased risks if it finances its own infrastructure development (lease structure is critical)
  - Multiple and complex finance mechanisms are available but have different levels of risk exposure
- ◆ The success of the aviation financial model generally means that Port authorities operate their own airports: few 3<sup>rd</sup> party operating arrangements in the U.S.
  - parking and rental car concession revenue is the gift that keeps giving!
- ◆ The maritime port model simply has more risk exposure and volatility





# Port of Portland's Strategic Areas of Focus

What we do

Retain and Grow Key Services

Be a Regional Leader in  
Industrial Land Acquisition and  
Development

How we do it

Sustainable Financial Model  
Portwide Environmental Strategy  
Regional Leadership in Transportation Infrastructure  
Strengthen the Port's Culture as a Strategic Asset



# Port of Portland: Situational Summary

- ◆ Small local market: more exports than imports
- ◆ Inland River Port: 103 miles from mouth of Columbia River
- ◆ Big container ports to the North: Seattle/Tacoma
- ◆ Improved but still restricted navigation channel depth: 43'
- ◆ Well positioned at the intersection of UP/BNSF East-West/North-South mainline
- ◆ Rail access with CP to central Canada
- ◆ “At grade” rail access
- ◆ Land inventory is robust
- ◆ Historic difficulty in container line business
- ◆ Historic success in bulks and auto
- ◆ Small public subsidy (non-operating revenue)





# Maritime Division: Strategic Responses

- ◆ Grow with the customers that you have had success with
- ◆ Long term leases incorporating “3 revenue legs”
  - obtain fair market land rent subject to CPI
  - obtain wharfage revenue subject to CPI
  - obtain dockage (vessel) revenue subject to CPI
  - stop discounting water front land!
- ◆ Lessee to fund capital requirements
- ◆ Invest wisely in “enabling” infrastructure:
  - rail
  - road way access/grade separations
- ◆ Evaluate container line of business operating model\*



# Container Operating Model Strategic Review

- ◆ Should Port continue to operate Terminal 6?
  - how to fund capital requirements short and long term?
  - supporting franchise through land sales no longer sustainable
  - lack of leverage with labor, carriers, terminal operators
  - financial exposure to Port due to revenue/volume volatility
  - expense gap with revenue growing ever larger
- ◆ What is the optimal operating model for Port of Portland
  - lease with carrier(s)
  - lease with carrier affiliated terminal operator
  - lease with non-carrier affiliated terminal operator
  - lease with equity investor (pension funds)





# Container Operating Model Strategic Review

- ◆ Adopted “concession” model as preferred alternative
- ◆ Hired Morgan Stanley as “sell side” advisors
- ◆ Global market solicitation-2007-2008
- ◆ RFQ/RFP
- ◆ Intersected with 2008 global recession
- ◆ Process suspended
- ◆ In 2009 entered into bi-lateral negotiations with ICTSI, Inc.
- ◆ In February of 2010, turned the operation over to ICTSI Oregon, Inc.



# Lessons Learned

- ◆ Private operator will not accept the public port authority's public mission goals unless it is financially viable
- ◆ Container Terminal valuations were in a bubble between 2005-2007 based on "scarcity" view and growth projections
- ◆ Financial models and industry reality often diverge
- ◆ Legacy labor agreements can create change complexity
- ◆ Lease structure needs to incorporate operating and performance standards
- ◆ Choosing the right partner is critical
- ◆ Need to do your homework: get educated
- ◆ Need to resource initiative: project management expertise
- ◆ This takes time: our process took 4+ years





# What we are working on?

- ◆ West Hayden Island Annexation-300 acres
  - rail served bulk/mixed use marine facility
- ◆ Auto Segment-growth will come from exports
  - Auto processing facility expansion-*underway*
- ◆ Bulk facility expansions financed by tenants
  - Kinder Morgan Soda Ash facility Terminal 4-*underway*
  - Columbia Grain facility-Terminal 5-*underway*
  - Portland Bulk (Potash)-Terminal 5-*underway*
    - ✓ *negotiating further expansion*
- ◆ Energy Segment due diligence (getting educated)

