

Port of Portland 2022-23 Public Hearing Minutes

Wednesday June 8, 2022

11:00 a.m.
Portland International Airport, Building
HQP-2 Chinook Board Room
7200 NE Airport Way
Portland, Oregon

Present:

TSCC:

Chair Harmony Quiroz, Vice-Chair James Ofsink, Commissioner Mark Wubbold, Commissioner Margo Norton, Executive Director Allegra Willhite, and Budget Analyst Tunie Betschart

Absent: Commissioner Matt Donahue

Port of Portland Staff:

Executive Director Curtis Robinhold, General Council Dan Blaufus, Chief Finance Officer Antoinette Chandler, Chief Commercial Officer Keith Leavitt, Chief Operating Officer Dan Pippenger, and Chief Administrative & Equity Officer Bobbi Stedman

Chair Quiroz welcomed everyone to the hearing and briefly described the duties and responsibilities of the TSCC. She reviewed the hearing process and stated the reason for the hearing was to engage the district leadership and provide an opportunity for the public to comment before the Port of Portland adopts its budget. She asked the TSCC Commissioners and staff to introduce themselves and state if they have business relationships with the Port that could be perceived as a conflict of interest. Each commissioner and staff member introduced themselves and stated they had no conflict of interest with the Port of Portland. She asked the district to introduce staff and any board members present. Then she asked Executive Director Curtis Robinhold to make brief introductory remarks about the budget. She stated that following his introductory remarks, testimony from the public would be taken.

After introductions, Curtis Robinhold welcomed the TSCC Commissioners to the first in-person meeting held at the Port of Portland in two years due to the pandemic. He briefly touched on the Port of Portland's new mission to build shared prosperity in the region using the Port of Portland's tools and assets. Then he asked Chief Finance Officer Antoinette Chandler to give a brief budget overview.

Ms. Chandler said the Port of Portland's budget focuses on the four Guiding Principles: Equity, Environmental Leadership, Financial Responsibility, and Safety. The Port will remain nimble and focused while dealing with the external factors that affect the Port's operations. The budget also focuses on key operational areas and shared prosperity throughout the region, evaluating the Port's assets that can be leveraged to increase quality jobs in the region. The budget includes investments to support the Trade and Equitable Development Division and additional resources to keep pace with marine business. She said the Port's budget reflects an investment in the employees in an equitable and inclusive way.

Following the budget overview, Chair Quiroz asked if anyone had signed up to give public comment. Executive Director Willhite reported that no citizens had signed up to speak at this hearing, and she had not received any written comments.

TSCC's questions followed the overview of the budget.

TSCC questions:

Commissioner Wubbold asked the following questions:

How have the experiences of the last three years altered the Port's mission, goals, and priorities? And how are these reflected in your 3-year strategic plan?

Mr. Curtis Robinhold said the George Floyd murder, the pandemic, and the economic impacts of the pandemic, made the Port rethink why they do what they do and how the district can leverage its buying power and people to create more prosperity in the region. The economic recession created a need to advance a regional economy that generates and shares wealth and economic opportunity more equitably. Shared prosperity is the vision the Port is driving towards.

He said the effort around mission, vision, and priorities has been positive. When the pandemic hit, the Port was focused on moving passengers, construction projects, and General Fund sustainability. With the onset of the pandemic, they initiated furloughs and a voluntary retirement program to reduce personnel costs.

The organization decided to continue the construction projects, providing employment in the region and taking advantage of moving this critical work forward while there were fewer passengers in the terminal.

What would you change in your response to the pandemic if you had it to do over again?

Mr. Robinhold said the Port made some mistakes at the pandemic's beginning. The furlough was necessary, but voluntary retirement may not have been necessary. The district experienced more turnover last year than in the past ten years. As a result, teams have been short-handed and stretched for the past several months.

Commissioner Ofsink asked the following questions:

Can you tell us about the Port's recovery in terms of aviation? Has it been faster or slower, and why? How has the Port's recovery from the pandemic differed from other comparable airports?

Ms. Chandler said enplanements are about 75% of pre-pandemic levels, and there are slight improvements monthly. The fiscal year 2023 budget enplanement forecast is almost 80% of pre-pandemic levels. Leisure has come back strong. Some other airports are ahead of 2019 levels. PDX has been a little slow in recovery due to Covid restrictions in Oregon versus places like Florida, San Diego, and Texas. Businesses here are not back in the office, so travel patterns are not back up yet. These restrictions have contributed to a slight lag in overall passenger loads. They are projecting to return to the 2019 levels by the fiscal year 2024. The Port expects international travel to return to the pre-pandemic levels by 2025.

Mr. Keith Leavitt said the more prominent international business travelers are a significant portion of the Ports business. They are still hybrid and not back in the office. This slow return to the office contributes to the overall slow recovery. The Port's financial sustainability is in a good position compared to a couple of years ago.

The Port has seen significant positive growth in domestic air cargo activity due to continued demand for e-commerce, up 30% from pre-pandemic. The international service between Hong Kong and Portland is critical for the area, and the Port has maintained this connection, even during the pandemic.

Flights to Germany, Iceland, Heathrow, Amsterdam, and most transatlantic flights are almost fully reinstated. The Port is poised to reinstate flights to Japan. Soon they will begin the first direct flights ever to Korea. But due to the lockdown, flights on the Pacific side are getting reinstated slower than Atlantic travel. The Port expects the Pacific flights to be fully reinstated by this fall.

What if business travel doesn't come back?

Mr. Robinhold said airlines had not taken business class seats out yet, because they think there could be more travel with more people working offsite. But no one knows. Most of the industry says it will take two years for business travel to return to pre-pandemic levels.

Commissioner Wubbold asked the following question:

The Port was fortunate to receive three rounds of federal stimulus grant funding. How much in total has the Port received, and how have those funds been used?

Ms. Chandler said the Port had been awarded a total of \$163.5 million in federal funds, \$10.5 million of which are direct relief grants for concessionaires. The district received \$72.5 million through CARES, \$16.9 million through CRRSAA, and \$63.6 million through ARPA.

Through the fiscal year 2021, the Port has utilized \$91.5 million, all of its CARES and CRRSAA funding. The remaining \$72.0 million in ARPA is forecast to be used in the fiscal years 2022, 2023, and 2024. The breakdown of this \$91.5 million is as follows:

- \$35.3 million, with 39% applied to the Airline Cost Center in FY20 & FY21 in the following ways:
 - Waiving airline year-end deficits/settlements
 - Directly offsetting operating and maintenance expenses in the airline cost center
 - Providing additional revenue sharing with the airlines
 - Providing direct assistance to the terminal and rental car concessionaires
- \$47 million, with 51% applied to the Port Cost Center to help offset the parking revenue loss and bolster the Port's liquidity.
- \$9.1 million, with 10% applied to rental car companies in the form of MAG relief and debt service coverage on the Port's 2019 CFC bonds.

Commissioner Norton asked the following question:

Significant strides have been made on the PDXNext capital program – the new parking garage is open, Concourse B has been renovated, and we've seen progress on the new roof for the main terminal. Has the capital program been impacted by supply chain disruptions, labor shortages, and inflationary pressures? If so, how are you managing those impacts?

Mr. Robinhold said inflation this last quarter is impacting the terminal core project. This project has been on schedule and on budget or very close for four projects. Inflation for the materials (steel, concrete, and drywall) for the roof project significantly impacts the costs. The Port will likely come in on schedule and is working with airline partners to adjust for the inflationary cost increases. PDX anticipates the terminal core to be finished in 2024 and the area just inside security in 2025. Inflation

could cause this project to be 20-30% over budget. The airline partners will share this cost. Drywall for one project alone went from \$19 million to a low estimate of \$34 million.

With all this inflation, how are the airlines feeling about the capital expenditures since they share in the cost? Are they asking the PDX to slow down on the capital projects?

Mr. Robinhold said the airlines are asking the Port to hold off on projects that have not been started. The PDX airline partners' contract states they must vote to approve significant expenses. Alaska has 40% of the vote and cost. The airlines, too, are struggling to figure out what the future looks like.

Ms. Chandler added they have locked in a significant portion of the project. They have completed the design process, and accepted the bids, which mitigates the risk. She said the Port of Portland is sticking to the schedule.

Chair Quiroz asked the following questions:

The increased container activity at Terminal 6 has been exciting for the region. Does some of this activity stem from congestion at other Ports related to the pandemic? Is the current container activity expected to continue after the pandemic recovery? How has the pandemic impacted other marine activity?

Mr. Leavitt said the surge in U.S. imports related to the pandemic did create an opportunity for regional ports like T-6 as major carriers expanded their primary routes to avoid congestion at larger ports. The South Korea-based ocean carrier, SM Line vessels are some of the largest ships that can navigate the Columbia River. The SM Line moves about 600 containers monthly on Union Pacific's new intermodal rail service between Portland and Chicago. This new cargo link is essential for solidifying SM's commitment to Portland. The Port is handling ocean containers from MSC and has a growing business in importing 53-foot containers built in Asia and bound for domestic use in the United States. The district anticipates much of this activity will continue after recovery from the pandemic and improvement in supply chain disruption.

Commented [TT1]: Missing word here? The south korea based what?

Commented [TA2R1]: Yes several words were missing! I have corrected that.

Commissioner Wubbold asked the following question:

As business builds, are you seeking a long-term lease for the container facility?

Mr. Leavitt said out of necessity, the Port of Portland took on more of a direct operator role. So far, it is working out well financially. There are some fixed costs to overcome. But they are accruing incremental net revenue with this model. As long as this is a sustainable business model, the Port will continue with this business model. Staff is carefully monitoring the General Fund to ensure they can keep assets up to sustainable revenue to operate.

Commissioner Ofsink asked the following questions:

We noted the new Trade & Equitable Economic Development division that's recently been established and the work being done at Terminal 2 related to the mass timber initiative. Can you tell us more about that work and how that's serving to advance shared prosperity in the region?

Mr. Leavitt said the Port of Portland did some analysis to see if the community benefits from Terminal 2. Through the Economic Development Administration, the federal government has offered businesses an incredible opportunity. It is a one-billion-dollar competition across the nation

for companies to compete for grant funding. Mass timber in Oregon is poised to lead this. The project would create a campus on Terminal 2 with workforce development focused on BIPOC communities; it would allow the Port to have university research and development at that campus, connected to all the mass timber activity. They would produce a mass timber housing factory producing factory-built mass timber small homes that can be shipped all over the state using marine connections. The Port put in for a \$50 million grant. The Port's piece is \$20 million. The Port is feeling optimistic about getting it.

If the Port did not get the entire grant, is it possible that it would be partially funded, and if so, what is the plan?

Mr. Leavitt said they had received \$500,000. They are confident they will be able to find other grant opportunities as well. The private market may also invest in this. They have the project proposals and can shop around among other businesses, using their property to leverage a lot of this. The feedback they have received shows there is strong support.

Commissioner Norton asked this follow-up question:

Is the Port an official sponsor of the project?

Mr. Robinhold said the Port is the official sponsor of the Economic Development Administration project grant application and a partner in the Oregon Mass Timber Coalition. This is creating an eco-system around mass timber and connecting to rural communities. If the district does not receive \$50 million, it will need to figure out a way to accomplish this. He said the Port could use its property to leverage the engagement of many partners.

Commissioner Wubbold asked the following questions:

When we met last year, you told us about the Port's goals and the plans to advance the shared prosperity initiatives. The budget message references continuing to assess how Port assets can best contribute to prosperity in the region. Metro has identified West Hayden Island as a priority for acquisition with 2019 Greenspace Bond Measure Funds. If that comes to fruition, would the Port use proceeds from the sale of West Hayden Island to further its shared prosperity initiatives? How do you envision increasing shared prosperity if this sale were to occur?

Mr. Robinhold said yes, the Port of Portland no longer needs West Hayden Island for a marine terminal and is interested in selling the property for a use consistent with community interest, using proceeds to support further investments in shared prosperity across the region.

From the Port's perspective, the feasibility of this opportunity will depend on what they find during due diligence and the ability to meet two basic criteria:

- First, the Port will seek a fair price for the property. The district has a fiduciary responsibility to manage the General Fund assets to allow for continued investments in regional shared prosperity.
- Second, is the need to maintain ownership of the 116-acre parcel of property dedicated to the placement of dredged material resulting from the maintenance of the federal navigation channel.

The Port's goal is to balance the community's interest in the site with its responsibilities as a public entity and legal obligations.

Commissioner Norton asked these follow-up questions:

Tell us more about the regional prosperity initiative - what are the program aims? How is the program structured? Who is involved in determining how proceeds are invested, and what constitutes the best use in how resources are used?

Ms. Bobbi Stedman said Shared Prosperity is the Port's new mission. It's not a specific project or initiative but a vision of the Port applying an equity lens to all aspects of the business. The district is committed to using resources – contracts and people, airports, marine terminals, and industrial development tools – to reduce barriers, create jobs, and build wealth for Black, Indigenous, people of color, low-income workers, and people with disabilities.

This application of the equity lens is not a new approach – the Port has been advancing the diversity, equity, and inclusion (DEI) goals since 2018. But now, the district applied sharpened focus and made the mission more explicit in the 2022-2025 strategic plan. The Port has identified four strategies and several objectives. They are looking at the outcomes they want to achieve and how they will be measured. They are examining the contracting processes and how to build greater shared prosperity into these. The Port is looking at utilizing its assets to benefit the community.

While all leaders at the Port are expected to deliver on Shared Prosperity, they recently created an executive position to lead the Shared Prosperity Office (SPO) in advancing shared prosperity action and accountability of the Port's shared prosperity mission and vision. The Port is launching a search for a new Chief Diversity and Social Impact Officer. This position will co-create conditions in which all people can participate and prosper; connecting that work to the communities served by the Port. This position will also manage a multi-disciplinary team to execute policies, programs, and processes that build shared prosperity and ensure transparent and inclusive community engagement practices.

This position will work closely with the leadership team on building shared prosperity into all the Port's strategic initiatives. Each leader at the Port is responsible for building shared prosperity into their projects and creating a funding mechanism for them. This is a work in progress.

Ms. Chandler added that they introduced an equity tool this year to determine how to track the outcomes, ensure it is carried out throughout the organization and measure it so that the organization will know they are achieving the desired outcome. They want the metrics to show lives are being changed and transformed.

Commissioner Ofsink asked the following questions:

We noted the FY 23 budget provides for continued remedial design of the Portland Harbor superfund cleanup remedy and that 100 percent of the river is under design. When do you anticipate the design will be completed and cleanup will begin? Do you anticipate any significant changes coming out of the detailed design?

Mr. Dan Blaufus said three pieces of the process with an overlay affect the timing of all this. The Environmental Protection Agency is doing the design. Part of the process includes sampling, which could result in design changes. Then the parties must agree with the EPA to determine who does what, then clean up starts. The overlay of this is who is responsible for the clean up and in what timeframe. All of this is happening simultaneously. Timing is hard to predict because there are lots of moving pieces. The Port predicts design may be finished by early 2024. Then negotiations begin, establishing an agreement and determining who's responsible. So it will be three to five years before

clean up starts. Clean-up will then be sequenced as to what gets cleaned up first and why. Private entities will have to pay for it.

Is there inflationary pressure a factor in the cleanup?

Mr. Blaufus said the Port wants to get this moving. And the inflationary piece is just another reason to get it done. The longer it takes, the more expensive it gets. This extreme inflation may be alarming to the private parties paying for this cleanup and expedite the process.

Chair Quiroz asked the following question:

There are 70 new positions in next year's budget. Do you anticipate any difficulties filling those positions? If so, what approach are you taking to recruitment and retention?

Ms. Chandler said about 33.5 add-back positions were temporarily eliminated through the voluntary retirement and separation program the Port implemented in April 2021 in response to COVID-19, so these are not 70 "new" positions.

Ms. Stedman explained that the great resignation hit about six months into the voluntary retirement and layoffs. Pre-pandemic, they had 20 vacancies ongoing. Now it is 75-80. Each recruitment is different. Some new budgeted positions may be difficult to fill, primarily police, IT, and engineering. The Port is offering \$10,000 signing bonuses for police officers. The district generally sees fewer applicants for its jobs but a higher percentage of qualified candidates. They have had success filling positions as they become vacant. For the positions they anticipate being challenging to fill, they now have access to various tools that allow them to reach out to and proactively source candidates, including those who may not be active job seekers. She said with the Port's excellent reputation in the region and the new tools, they are confident they can continue to bring well-qualified candidates on board.

In terms of retention, the Port is committed to a flexible hybrid approach they think will provide the flexibility and autonomy employees and many job seekers want. They have asked employees to complete surveys about their experience as an employee of the Port. Recently, they analyzed the results and asked a peer support group to give some recommendations. They adjusted wages. That, coupled with the intention of maintaining the Port's culture, will ideally ensure strong retention.

We see an addition of 17 security staff in the budget. Passenger levels have not returned to pre-pandemic levels, how many of these positions are add-backs from pandemic era cuts, and how many are new positions?

Ms. Chandler said two are add-backs. Part of the emergency communications center. The 12 others are new positions. Ten positions are centered around policing positions to deal with the increased crime and homelessness around the Port property. There are two new Emergency Program Specialists and an Aviation Security Ops Specialist.

Chair Quiroz thanked the Port of Portland staff for the responses to the questions and contributions to the hearing. Then she closed the hearing and opened a regular meeting of the Tax Supervising and Conservation Commission to certify the Port of Portland's 2022-23 Approved budget. She asked if the TSCC commissioners had any questions or comments to make concerning the budget. There were none.

Chair Quiroz asked Executive Director Allegra Willhite to give staff recommendations for the certification letter.

Ms. Willhite said it has been a pleasure working with the Port of Portland staff throughout the budget process. They have been quick and willing to respond to TSCC questions. She said regarding the certification letter, staff found the budget estimates reasonable for the purposes stated. We have one recommendation. Staff noticed over-expenditures are a recurring challenge, and encourage the district to implement enhanced policies to mitigate these issues. The Port's staff have already responded with a letter addressing this issue. She said staff have no objections to the fiscal year 22-23 budget.

Chair Quiroz called for a motion.

Commissioner Norton moved to certify Multnomah County's Approved Budget with no recommendations or objections as recommended by staff. Commissioner Ofsink seconded the motion, which passed with a unanimous vote of the commissioners.

There being no other business, Chair Quiroz closed the meeting