STRATEGIC PLAN

2010 - 2015
Port of Portland Vision and Mission

Charged with promoting the region’s aviation, maritime and commercial and industrial interests, the Port’s mission is …

… to enhance the region’s economy and quality of life by providing efficient cargo and air passenger access to national and global markets.

While the mission describes what the Port does, the vision is an aspirational statement of what the Port wants to become over the next five to 10 years. Supporting its mission, the Port’s vision is …

… to be a prominent, innovative economic development engine while stewarding the region’s community and environmental best interests.

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The Port of Portland: Possibility. In Every Direction.

Located in Portland, Ore., the Port of Portland is the bridge that connects Oregon and much of the rest of the Pacific Northwest to the world. The Port manages marine and airport facilities that link to intermodal transportation systems connecting relatively isolated local markets with each other, the nation and beyond. One of only a handful of consolidated ports in the U.S., owning both marine and airport terminals, the Port is also the Portland area's largest owner of industrial land.

History

The Port of Portland was created by the Oregon Legislature in 1891 to dredge a shipping channel from Portland 100 miles to the sea. Today, the Port is charged with promoting aviation, maritime, commercial and industrial interests within Clackamas, Multnomah and Washington counties (including the city of Portland). The scope of Port services extends beyond this immediate metropolitan area to include farmers and other industries from inland regions of the Northwest. The Port is directed by a nine-member commission, whose members are appointed by the governor of the state of Oregon and confirmed by the Oregon Senate.

The Port’s location at the confluence of two navigable rivers, two transcontinental railroads and two interstate freeways has been a factor in the development of facilities and the commodities it ships. Portland’s population size and economic history have dictated an export dominance in trade. It has also influenced the development of distribution facilities that serve markets beyond its geographic boundaries.

Facilities and Services

The Port owns four marine terminals, Oregon’s primary commercial airport (Portland International Airport or PDX), two general aviation airports (Hillsboro and Troutdale), and it oversees five industrial/business parks. The Port also owns and operates the dredge Oregon to help maintain the shipping channel on the lower Columbia River.

Operating an award-winning, world-class airport allows cargo and passenger air carriers and a host of vendors to be successful in their businesses, and in turn, millions of passengers and tons of air cargo have ready access to destinations around the globe. Streamlined marine terminals and prime industrial properties offer shippers, ocean carriers and about 1,000 area businesses an opportunity to compete in international markets.
Recent Successes

While the Port’s service territory is large geographically, its market is relatively small. At the same time, the Port is heavily reliant on its own business revenues to fund its operations, with 97 percent of its revenues coming from business transactions. Despite not having the market size or financial resources of some of its West Coast competitors, the Port can nonetheless celebrate several notable achievements:

- Obtaining funding for and seeing completion of the deepening of the Columbia River navigational channel to 43 feet.
- Being among the 12 U.S. cities with both nonstop trans-Pacific and trans-Atlantic air service (with a market size only half that of the 11th largest of these cities).
- Helping establish, via legislative approval, a statewide funding program for nonhighway transportation improvements and receiving funding for key projects such as a marine terminal crane purchase and lengthening of PDX’s north runway.
- Developing a unique and effective disadvantaged business program that serves as a model for others across the country.
- Investing in a brand new corporate headquarters building that consolidates the Port’s two primary offices into a new facility that will be at least gold level LEED-certified.
- Adopting a sustainability policy that both reflects our community’s and the Port’s values and meets business needs.
- Securing approximately $125 million in funding, via competitive grant and loan programs, for the Port and others to fund Port priorities in 2009.
- Creating and implementing a customer service program for all employees at the airport that has resulted in consistently being recognized as one of the best airports in the U.S.
Intent of the Strategic Planning Process

New Strategic Planning Process Aligns Priorities and Budget

During the global economic recession of 2008-2010, the Port experienced the loss of ocean and air carriers and the subsequent declines in volumes and revenues. As resources dwindled and the economy restructured, the Port embarked on designing a new strategic planning process that would allow it to better adapt to shifts in the economy and changes in its business model. The Port understands that its customers have a choice of seaports and airports. It simply cannot pass cost increases on to customers as a way to do everything it wants to accomplish. This new strategic planning process focuses the Port’s decision making and planning processes on identifying its highest priorities while managing costs.

Designed by Port staff in collaboration with a local strategic and organizational design firm, the Coraggio Group, the Port’s new strategic planning structure provides:

- Consistency in strategic planning from cycle to cycle
- Linkage among strategic planning, business planning and budgeting
- Clear prioritization of activities and expenditures aligned with strategic priorities
- Management processes to track progress toward strategic goals

Organized into five phases, this new planning process directly links the development of the Port’s annual budget to five-year strategic goals. The intent of the process is to have clearly articulated and defined long-term (five-year), Portwide strategies that direct the development of both a three-year and an annual business plan, which, in turn, drive annual budgeting. This strategic plan will guide the Port from fiscal year 2010-2011 through fiscal year 2014-2015.
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| 1 Year      | Annual Budgeting              | Annual budgets developed in alignment with strategic and business plans }
Market Trends / Situation Analysis
Part of a Larger, Global Transportation System

The Port of Portland’s facilities are part of the national and global transportation system. The Port competes with other seaports, airports and regions for customers, whether they are carriers, air passengers or industrial park tenants. The lines of business are subject to market forces and changes in the economy. At the same time, the Port is accountable to its customers and stakeholders for how it manages and conducts business. Community values, customer financial requirements and public policy are incorporated in both day-to-day and long-term decision making processes.

Competing for Business on the West Coast

The Port’s competitiveness is a function not only of how it adapts to changes in economic and industry trends, but also of its comparative advantages relative to other West Coast ports. The more the Port can leverage its advantages and mitigate its disadvantages, the more successful the Port will be.

Advantages:

• Consolidated port authority like some, but not all, West Coast ports
• Nearby industrial land available to accommodate Port-related activities
• Sufficient capacity at both its seaport and airport terminals to accommodate increased business volumes without expansion in the short term
• Adjacent land available for long-term expansion of facilities (assuming West Hayden Island is developable, in part, for marine facilities)
• Superior inland truck, rail and barge connections, particularly compared to Pacific Northwest ports

Disadvantages:

• Among smallest of competitor seaports and airports
• Not top-of-mind for carriers when considering service expansion
• Small local market and sparsely populated inland market area
• Lack of economies of scale
• Fewer financial resources; some competitors self-sufficient, others supported by larger tax levy (up to 15 to 20 percent of annual revenue)
Market Dynamics, Industry Trends and Key Business Drivers

The Port of Portland operates three primary portfolios of business: marine, aviation, and industrial land. Within the portfolios, there are several lines of business. Not only are each of the business lines different, the Port’s position and the market dynamics vary.

Marine

Overall Market Position:

- Largest U.S. West Coast mineral bulk port
- Largest wheat export region in U.S.
- 3rd largest auto import port in U.S.
- Dropped to 4th in total tonnage on West Coast
- Smallest U.S. West Coast container port, ranked 16th in U.S.

Market Dynamics:

- Intense competition for West Coast container ports:
  - Aggressive expansion of East Coast container infrastructure.
  - Pending completion of Panama Canal expansion.
  - Viability of the new container terminal in Prince Rupert, British Columbia.
- U.S. auto sales continue to trend downward following “Cash for Clunkers” spike, though imports continue to grow market share.
- Grain exporters remain profitable, investing in capacity.
- Contracts in place for increased mineral bulk sales.

Aviation

Overall Market Position:

- Regional hub for Alaska, Horizon
- SkyTeam (Delta) now largest airline alliance at PDX; partnerships with Alaska/Horizon
- Smallest of 12 U.S. cities with both nonstop trans-Atlantic and trans-Pacific service; slightly more than half the size of #11 (Minneapolis)

Market Dynamics:

- Number of seats to begin growing by summer 2010; first growth in two years
- Fewer trips, shorter trips, leisure travel down more than business travel
- PDX transoceanic service at risk
- Cargo volumes beginning to return, but still well down from peak; dependent on U.S. economic growth
- Lack of dedicated transoceanic freighter service
**Industrial Land**

**Overall Market Position:**
- Largest owner of industrial land in the region
- Holds three key parcels of land to help meet regional demand
  - Troutdale Reynolds Industrial Park – distribution/general industrial
  - West Hayden Island – terminal expansion, distribution
  - Southwest Quadrant – airside development

**Market Dynamics:**
- Importers shifting from fewer national to more regional distribution centers
- Fewer greenfield sites available near ports and airports in U.S.
- Decreasing number of large parcels (50+ acres) inside the Portland urban growth boundary
- Recession temporarily dampening absorption of existing vacant space and demand for vacant parcels

## Key Drivers for Port Business Lines

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<td><strong>Domestic Auto Makers' Competitiveness</strong></td>
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<td><strong>Weather in Crop Growing Regions</strong></td>
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Pace of Economy and Trade Influence Port’s Bottom Line

After several very strong years, international trade, a cornerstone of the Port’s business, sputtered in 2009. Nationally, the trade deficit shrank as declines in imports outpaced those in exports. Heavily trade-dependent, the region and the Port felt directly the severe slowdown in international trade.

- Regionally, the value of international trade dropped by $10 billion, roughly a decrease of one-third compared to 2008.
- Trade with Japan, China and South Korea, which accounts for two-thirds of the region’s trade activity, fell 34 percent in 2009.

The outlook, however, is more optimistic. According to Tim Duy, director of the Oregon Economic Forum at the University of Oregon, increasing the volume of U.S. exports is one of the fundamental keys for recovery. Tom Potiowsky, state economist for the state of Oregon, forecasts that Asia will likely recover sooner and faster than the rest of the world, which, when combined with a relatively weak dollar, should result in increased export activity in Oregon and the rest of the Pacific Northwest. Most other indicators, as well, point toward an increase in trade activity over the next five years.

- Favorable exchange rates for exports
- The Obama administration’s export initiative
- Importance of Oregon’s trade with China increasing; Oregon’s exports to China now ranking 5th among 50 states

A growth spurt for exports will bolster the export-dependent economy, but economists are calling for slow growth and long recovery. As shown in the graph below, Oregon typically takes longer than the rest of the country to return from a recession to the previous peak. Additionally, income growth, which has been lagging the nation over the last decade, may continue to show weak growth.

- Employment in Oregon will not return to 2007 levels until 2013.
- Only the Great Recession of the early 1980s had a longer recovery period in Oregon: seven years.

Recovery Periods, Oregon vs U.S.

![Graph showing recovery periods for Oregon and the U.S.](source: Oregon Office Economic Analysis)
• The Portland-Vancouver metro area’s per capita income was 109 percent of the U.S. per capita income in 1997, but only 101 percent by 2007.

Per Capita Income, Percent of U.S.

All of these economic issues have a direct impact on the Port’s bottom line. Higher unemployment rates and lower income levels dampen demand for trade, air travel and industrial land. This, in turn, reduces the amount of revenue the Port collects and the financial resources it has at its disposal. As trade increases and the economy improves over the period of time covered by this strategic plan, Port revenues should increase.
Dynamic Industries in Challenging Times

The Port and the carriers that call its facilities operate in highly competitive and volatile industries. Freight shipments and air travel directly reflect economic activity levels and other market dynamics such as exchange rates, oil prices and income levels.

Globally, both the maritime and aviation industries are expected to report financial losses in the billions of dollars in 2010. While conditions for these industries are expected to improve over the period of time this strategic plan covers, the financial losses in these sectors and other trends specific to these industries translate into lower revenues for the Port and a need to focus on cost containment.

At the height of the recession, the volume of trade was so low that ocean carriers had idled more than 500 vessels at anchor. There simply was not enough cargo to fill the ships. Global economic stimulus and low prerecession inventory levels have led to carriers bringing many of those vessels back into service. Heading into this five-year planning cycle, other signs of improvement in maritime trade are evident.

- Improvement over 2009 volumes are expected across many sectors of the industry.
- Costs to charter a vessel in 2009 reached historic lows, but are beginning to rebound now.
- “Slow steaming” efforts to reduce fuel consumption continue as carriers look to reduce costs.
- Coming off a tough year for ocean carriers in 2009, increases in shipping rates should help carriers improve financial performance.
The very same dynamics at play in maritime trade have also affected the movement of air cargo. Volumes are beginning to increase, but the pace of growth hinges heavily on consumer spending, demands here in the U.S., and the performance of the U.S. economy.

Passenger airline operations similarly have seen capacity in the form of seats taken out of the market. Airlines have been challenged to manage their schedules and capacity during the downturn. Capacity reductions have taken the form of eliminated flights, reductions in the number of days each week flights operate, and shifting flights to regional carriers with smaller aircraft. Some of this capacity is now being pulled back into the market slowly. Carriers, having implemented both cost-cutting and revenue-enhancing programs, are beginning to see improvement in their bottom lines, though losses are still expected in the short term.

- U.S. carriers are expected to lose $1.8 billion in 2010, outperforming the industry worldwide, which is expected to lose $2.8 billion.
- Premium and business travel is starting to return.
- Airlines will continue to add ancillary fees.
- Leisure travelers are modifying behavior: they are waiting longer to book, taking shorter trips, spending less, and focusing on value or all-inclusive packages.

The reason that trade and travel dropped so precipitously during the recession was that goods and services were not being purchased. As industry produced fewer goods and sold even less of what it produced, the need for new or expanded facilities for manufacturing, distribution, logistics and freight handling dwindled. Industrial space vacancy rates skyrocketed, and demand for industrial land slackened. In the Portland market, the industrial market was hit particularly hard as a great deal of new space was constructed during the run-up to the prerecession peak. Most of it came on line late in 2008, just as the market began contracting. As the economy has begun to pick up, there are some signs of improvement, though demand for vacant industrial land will likely be soft in the short term. While this provides some relief from the shortage of industrial land in the region, the relief is only temporary.

- 2009 posted worst industrial market performance in 20 years.
- Portland vacancy stabilizes at 8.8 percent as economic slowdown eases.
- Q4 2009 had positive absorption for the first time in more than a year.
Public Policy

In addition to the economy, market forces and competitors, public policy decisions at the national, state, regional and local levels factor into the Port’s success. Public policy influences range from project funding choices to regulatory decisions to election outcomes. Over the next five years, policy makers at all levels of government will make decisions on a variety of plans, projects, regulations and funding priorities that will impact the Port. Completion and implementation of regional plans will influence and guide Port decisions.

Policy, Legislation and Regulation

- Federal surface transportation funding reauthorization
- Federal Aviation Administration authorization
- Metro's Urban Growth Boundary decision (2010)
- Oregon transportation funding legislation (2011)
- Federal and state rail funding
- State and regional greenhouse gas emissions policies
- Federal climate change policy (likely beyond 2010)
- ODOT state rail and port plans (2011)
- Metro regional rail plan and freight strategy

Projects and Plans

- Columbia River Crossing
- West Hayden Island annexation and zoning
- City of Portland River Plan
- Lower Willamette River Superfund
- Airport Futures
- Troutdale Reynolds Industrial Park development (including related infrastructure)
- Extended Columbia River system lock outage
Defendable Position
The Port of Portland’s Leadership Position

A defendable position describes the Port’s leadership position that creates enduring value to customers, stakeholders and the community-at-large. Based on the Port’s mission, vision and an assessment of the Port’s competitive and market positions, the Port has defined its defendable position around superior customer service, regional stewardship and cost-efficiency.

Value/Cost-Efficiency

- Competitive cost structure for airlines and ocean carriers
- Agility in responding to market and economic trends
- Access to multiple modalities: rail, trucking, barge
- Capacity for growth
- Financial stewardship of public resources
- Ability to operate self-sufficiently with minimal public subsidy

Customer Focus/Experience

- Adaptability/flexibility in meeting customer needs
- Customer-focused facilities (airport and terminals)
- Customer understanding/relationships
- International transportation expertise
- PDX’s recognition as one of the best airports in the country

Regional Stewardship

- Relationships with regional policymakers
- Acting in alignment with regional priorities/acting in region’s best interests
- Environmental mitigation and sustainability programs
- Stewarding large regional assets
Areas of Strategic Focus
Strategic Priorities for Fiscal Years 2010-11 through 2014-15

The Port developed and ultimately selected a set of five-year strategic focus areas that would ensure that the Port can:

- Fulfill its mission.
- Achieve its vision.
- Respond to market needs and dynamics.
- Align with its market and community leadership position (defendable position).

Over the five-year period ending June 30, 2015, the Port of Portland will focus on six strategic priorities.

The areas centering on key services and industrial land focus on what the Port does. They are the primary areas of focus. The remaining four areas on financial sustainability, environmental strategy, regional transportation leadership infrastructure, and maximizing the Port’s culture, address how it conduct its business. These support the two primary strategies.
Retain and Grow Key Services

- Grow revenues and support Port’s mission via existing and new services and other opportunities.
- Maintain and grow service to target markets (air and marine).
- Increase utilization of existing terminal capacity (air and marine).

Be a Regional Leader in Industrial Land Acquisition and Development

- Establish stronger regional leadership around industrial land acquisition and development.
- Optimize Port’s existing land/assets (strategic value and/or financial return).
- Ensure use of industrial land for intended strategic purposes.

Sustainable Financial Model

- Establish financial management policies that ensure a sustainable Port operating model (regardless of external variables).
- Manage all Port assets and investments to the highest reasonable rate of return.
- Ensure that all Port activities and investments are strategically aligned and efficiently managed.
- Analyze and implement process improvements that lead to both efficiency and organizational effectiveness.

Portwide Environmental Strategy

- Create an environmental strategy that optimizes environmental resources according to Portwide and business line priorities.
- Implement environmental activities required to comply with legal and contractual requirements and to meet strategic priorities of the business lines.

Regional Leadership in Transportation Infrastructure

- Advocate for regional transportation infrastructure that meets regional and customer needs for efficient/effective goods movement.
- Develop a plan for transportation infrastructure development that supports the Port’s ability to grow and fulfill its vision/strategy.

Strengthen the Port’s Culture as a Strategic Asset

- Strengthen a culture of agility, responsiveness, customer focus and continuous improvement.
- Retain talent and intellectual property necessary to implement the Port’s vision and strategy.
- Improve operating effectiveness through a strong, unified Port working culture.
- Ensure alignment of people systems and management to strategic priorities and plans.