Enhancing Portland’s Business Environment: A Public — Private Enterprise

City Club of Portland (Portland, Or.)
City Club members will vote on this report on Friday, June 27, 2008. Until the membership votes, City Club of Portland does not have an official position on this report. The outcome of the vote will be reported in the City Club Bulletin dated July 11 and online at www.pdxcityclub.org.

Enhancing Portland’s Business Environment: A Public — Private Enterprise
The mission of City Club is to inform its members and the community in public matters and to arouse in them a realization of the obligations of citizenship.

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Executive Summary

In undertaking a study of Portland’s business environment, City Club of Portland sought to answer important questions that have long been the subject of local debate: What makes a “friendly” business environment? How friendly is the business environment in Portland? How can the business environment be made better? These questions have even greater urgency today as the national and local economy slow and concerns about a recession gather.

After two years of study, including testimony from a broad cross-section of witnesses from both the private and public sectors, your committee has concluded that Portland’s business environment — the conditions that impact business formation, recruitment, growth, and success — is reasonably good and many aspects of it have improved in recent years. Overall, the area’s quality of life — its outstanding natural setting, vibrant urban core, rich cultural offerings, and civic values — is a competitive advantage for the city and region, attracting both young, highly educated workers, and experienced retirees. The city’s business services, including the availability and quality of accounting, legal, communications, and consulting support, is strong, and the availability of capital for investment is adequate.

Compared with other benchmark cities, the overall tax burden on Portland businesses is competitive. Recent reforms to Portland’s business income tax, along with efforts to improve the city’s permitting process, have been well received by many in the business community. However, taxes paid by businesses within the city continue to be higher than those paid in neighboring jurisdictions, which should remain a concern for the Portland City Council and the Multnomah County Commission. Nonetheless, in spite of often-cited claims that high taxes have caused a significant flight of businesses from the city to the suburbs, your committee found little evidence to support this claim.

Portland’s tax structure and its (and the region’s) economic development efforts favor businesses that export goods and services from the region. Your committee believes that favoring these “traded-sector” businesses is a sound strategy for long-term economic growth, because without the cash infusion produced by such businesses, the retail sector, service industry, and other local companies that sell to customers within the region would suffer.
Strained relations between business and government, which were a concern when City Club began this study in January 2006, have been easing. Business and government leaders have made efforts to address underlying causes of disagreement and are working together more frequently to resolve issues rather than attack each other publicly. City officials also have been actively reaching out to businesses to improve mutual understanding.

However, the city and region face a number of challenges to the health of the local business environment that are not being adequately addressed. These include a transportation infrastructure that is severely stressed as the region’s population and businesses continue to grow, lack of stable funding for public education at all levels, a shortage of skilled workers in certain industry sectors, and a growing lack of affordable housing within city limits for working families. These are areas of common concern that deserve the attention of both city officials and business leaders.

Homelessness also has a negative effect on downtown business. In late 2006 the city introduced new steps to reduce homelessness and control its impact on business. It is not yet possible to draw conclusions on the effectiveness of these efforts on Portland’s business environment.

Although the recent formation of a private-sector economic development organization for the region is a positive sign, improvements are needed in coordinating economic development programs at the state, regional, and city levels.

Many government services that impact the local business environment, including public education and public safety, require stable levels of funding throughout the economic cycle. Your committee believes that waiting until an economic downturn occurs, and then applying tax surcharges and fee increases to raise needed revenues, is not a good practice. Economic cycles are here to stay; local and state governments must prepare in advance to fund needed services during lean times.

Your committee was surprised to find how incomplete the empirical data are to measure the health of the city’s business environment. Indicators at the state and regional level are more readily available. Compiling the necessary data for the city should be a higher priority.

Business and government leaders at the city and regional levels should work with their state counterparts to plan the programs to address these challenges, to build public awareness and support for solutions, and to find funding to implement them. These are thorny problems; strong leadership is needed, and a solid public and private partnership is essential.
While your committee believes there is room for incremental improvement with regard to all aspects of the business environment, we believe that the following recommendations will have the greatest potential impact:

Relations between City Government and the Business Community
1. City officials and business leaders should recognize that a cooperative working relationship is the single greatest factor in the city’s business environment. Specifically:
   a. City officials should make frequent site visits to businesses and meet often with business leaders.
   b. Business leaders and city officials should be more judicious in using the power of the media to leverage decisions in their favor.

Economic Development Programs
2. The city of Portland should join with businesses to create an economic development plan that takes into consideration the economic development plans for the state and the region, and that is evaluated and updated annually.

Workforce
3. City Council, the Portland Development Commission, and Metro should continue to support the development of affordable housing, with a greater emphasis (including incentives for builders and developers) on building more family-friendly housing that medium- and low-income workers can afford.
4. A taskforce of business and education leaders should be formed to propose training programs to ensure that Portland’s workforce skills better match industry needs, to raise awareness among students and workers about career and training opportunities, and to monitor progress in meeting labor force needs.

Public Education
5. The Oregon Legislature should fund primary and secondary education in a consistent, sustainable manner and at the level recommended by the Quality Education Model.
6. The Oregon Legislature should increase levels of funding for public higher education to at least match per student funding in Washington and California, our two west coast competitors, so that:
   a. Course offerings support completion of a degree at a community college in two years and at a university in four years.
   b. Faculty salaries are competitive with public colleges and universities in Washington and California.
   c. Tuition at public universities and community colleges in Oregon is comparable to tuition in Washington and California.
7. Portland State University and Oregon Health and Science University should continue to develop strong research centers for the region, and both the public and private sectors should support this effort. The Oregon Legislature should increase investment and should enact further measures to support transforming innovations from university laboratories into profitable business enterprises.
Transportation

8. Metro, in working with the states of Oregon and Washington to create the 2035 Regional Transportation Plan, should assure that the plan does the following:
   a. Considers overall needs when prioritizing projects.
   b. Identifies funding sources and considers strategies for building public support for public funding.
   c. Identifies how best to maintain and improve bridges throughout the region.

9. City Club should initiate a comprehensive study to determine the best administrative structure and oversight authority for regional transportation planning and implementation.

Taxation

10. So long as business tax rates in the city of Portland and Multnomah County significantly exceed those paid in other jurisdictions in the region, Portland and Multnomah County should only undertake new local government spending initiatives with exceptional justification.

11. Because revenue from business income taxes is volatile, the city of Portland and Multnomah County should establish rainy day funds that are sufficient to avoid tax increases, surcharges, and fees during economic downturns.

Measuring Progress

12. The city auditor’s office should be provided with the resources that would make possible tracking the entire range of metrics that assess the condition of the city’s business environment, including information on economic development spending of competitor cities.
Introduction

In January 2006 your committee began identifying factors that affect Portland’s business environment and analyzing significant differences of opinion regarding the condition of the business environment. Your committee also began examining the city’s strengths and weaknesses relevant to doing business in Portland, and deliberating actions that should be taken to improve the city’s business environment.

Portland is part of a larger economic region that bridges two states. As such, this study is concerned with the economic environment of the entire region. However, this report focuses primarily on the city of Portland’s economic health, and consideration of the larger region is somewhat limited. The report addresses individual cities and counties within the region only as they relate to Portland.

Your committee compared Portland with the ten metropolitan areas identified as competitor regions in Portland’s 2002 Economic Development Strategy (Austin, Denver, Las Vegas, Minneapolis-St. Paul, Phoenix, Sacramento, Salt Lake City, San Diego, San Jose and Seattle).

To ensure a broad spectrum of perspectives, your committee interviewed 65 witnesses. Specifically, your committee heard from panels of CEOs and senior executives from the following business sectors: manufacturing and metals, sports apparel and athletic gear, professional services, creative services, retail, sustainable (green) industry, high technology, biotechnology, and health sciences. Your committee also met with leaders of the Portland Business Alliance and the Oregon Business Council, and with local venture capitalists.

Meetings were also held with Mayor Tom Potter and with City Council members Sam Adams, Dan Saltzman, Erik Sten and Randy Leonard, with the city’s Bureau of Planning Director Gil Kelly, Metro Council President David Bragdon, City Auditor Gary Blackmer, and with officials from the Portland Development Commission, including its executive director, Bruce Warner.

Your committee also met with economists and experts in measuring business environments, experts in education and workforce preparedness, pollsters whose research is relevant to the business environment, and experts in business taxation.

Between early 2006 and early 2008 — the period that we undertook this study — Portland’s economy improved significantly and only near the end of the study appeared to be on the verge of a slowdown. For the most part, markets strengthened for business goods and services; unemployment rates fell; interest rates dropped; and housing values rose significantly. This improvement during most of the period of the study had an impact both on the data that your committee analyzed as well as on the tone of the witness testimony and media coverage that your committee observed.

This report discusses a range of factors that contribute to Portland’s business environment, examines other studies that evaluate Portland as a place to do business, identifies areas of concern, and draws conclusions and recommendations. The report is not a snapshot in time, rather it reflects trends over a period of several years.
**TERMINOLOGY**

*A common definition of key terms is essential to understanding the topic:*

**Business environment** — The confluence of conditions in a city or region that impact business formation, recruitment, growth, and success.

**Traded and non-traded sectors** — Businesses in the traded sector sell their goods and services primarily to customers outside the region, bringing in outside income that is circulated locally, prompting growth through a multiplier effect. In contrast, businesses in non-traded sectors primarily sell to customers within the region, and their collective growth is largely tied to population growth in the region.

**Portland region** — Except when specifically indicated otherwise, this term refers to the federal government’s Portland Metropolitan Statistical Area (MSA), which includes Multnomah, Clackamas, Washington, Columbia, and Yamhill counties in Oregon, and Clark and Skamania counties in Washington.

**The city of Portland** — The incorporated city.

**Competitors** — Other cities or regions that compete with Portland for location of business facilities. The Portland region and the city of Portland each have distinct sets of competitors.

*Competitors of the Portland region* are other economic regions, in the United States and in foreign countries. This study focused on ten domestic regions identified in the city of Portland’s economic development strategy: Austin, Denver, Las Vegas, Minneapolis-St. Paul, Phoenix, Sacramento, Salt Lake City, San Diego, San Jose, and Seattle.

*Competitors of the city of Portland* are other local jurisdictions within the Portland region where businesses moving into the region may locate, or where businesses currently in the region may decide to relocate. The city of Portland’s economic development strategy identifies the following ten local competitors: Beaverton, Camas, Clackamas County, Clark County, Gresham, Hillsboro, Multnomah County, Tualatin, Washington County, and Vancouver.

**Participants in the business environment** — Whether speaking of the region or the city, the business environment includes businesses (including utilities and financial institutions), business organizations, government (all branches), educational institutions, the news media, and the general public.
Background

The Portland region, with a population of about 2.1 million in 2006, spans two states and contains almost half the entire population of Oregon.* Between 2000 and 2006 the region’s total population grew at an annual rate of 1.7 percent. The Washington segment of the region grew fastest during that period (3.1 percent). In Oregon, Washington County grew at a rate of almost 2 percent (nearly double the rate of Multnomah County) and Clackamas County grew at a rate of 1.4 percent.

Total employment increased over 35 percent during the period 1990-2005 (while population increased about 27 percent). During this period of growth the region’s economy changed dramatically. Metropolitan area employment in the state’s traditional sectors dropped, with natural resources and mining down nearly 24 percent, wood product manufacturing down 24 percent, paper manufacturing down 33 percent, and primary metals manufacturing down 28 percent. Even electronic equipment manufacturing employment dropped by over 40 percent; another big loser is traditional wired communication carriers, down over 46 percent.

These employment losses are far outnumbered by gains in other sectors. In the manufacturing sector, growth as high as 123 percent (for semiconductor and electronic components) helped offset losses, leaving total manufacturing employment essentially level since 1990. Residential building construction more than doubled. Education services (up nearly 80 percent), health care and social assistance (up nearly 60 percent) and amusement, gaming, and recreation (up over 80 percent) have all grown substantially. Software producers increased 260 percent (though only to 5,400 jobs in 2005). Business support services grew 225 percent (7,800 jobs).

As of December 31, 2007, half (12) of the 25 largest employers in the Portland metropolitan area were in manufacturing and retail. Four others were health care providers, seven were institutions of public education, and the remaining two were other units of government.4

The Washington state segment of the region, with 19.5 percent of the population, accounted for only 12.7 percent of private employment in 2006.

Historically, the unemployment rate in the Portland region has swung more widely between the extremes of the economic cycle than it has nationally. During the recession at the beginning of this decade, the Oregon state portion of the region suffered an extended downturn as private non-farm employment declined from 747,378 in 2000 to 705,931 in 2003, an annual decline of 1.9 percent, higher than the national annual fall of 1.7 percent during that period. In contrast, between 2003 and 2006 the Oregon portion of the region grew in employment at an annual rate of 2.7 percent, compared with the national rate of 1.7 percent.

While employment figures are not available strictly for the city of Portland (a finding discussed in the body of the paper).
(report), during the 2000-2003 downturn Multnomah County was hit much harder than the rest of the region. Employment fell almost 3 percent annually, compared with a decline of 1.1 percent for Washington County and only 0.3 percent for Clackamas County. Unfortunately, during the recovery Multnomah County also lagged, growing at an annual rate of only 1.5 percent, compared with nearly 4 percent in Washington and Clackamas counties. Over this entire 2000-2006 period, private employment dropped by a total of 17,079 jobs in Multnomah County while 31,055 jobs were added in Washington and Clackamas counties.

These statistics, combined with the presence of boarded-up windows on some downtown streets and worries that light-rail construction on Fifth and Sixth avenues would cause business disruption, led several witnesses to question the health of the core downtown business district. Indeed, a January 2007 article in the Portland Business Journal noted that “downtown has seen a torrent of empty storefronts — at least 40 vacancies — in the last six months.” In that same month, the Portland Business Alliance released a statement that “while downtown Portland development is the envy of many cities, downtown retail is not keeping pace with outlying and adjacent competitive markets.”

Your committee considered these concerns significant because Portland is the hub of the metropolitan region. Portland has the most concentrated density and diversity of citizens and businesses in the region. It contains the major intersections of the region’s transportation network, including the international airport, sea and rail freight, interstate highways, and mass transit. The city also serves as the cultural and entertainment center for the region, and is home to the region’s primary venues for performing arts and sporting events, as well as many tourist attractions.

During the course of this study, your committee also observed signs of rejuvenation in Portland. In March 2007 The Oregonian lauded downtown Portland’s “biggest transformation in 60 years.” Macy’s undertook a major renovation of the former Meier & Frank flagship store, Nordstrom embarked on major upgrades to its downtown store and Brooks Brothers opened its first Portland store in The Galleria in November 2007. The downtown retail market was cited as being the strongest it has been in a long time, and the strength extended throughout the city, according to one downtown real estate broker.

A similar trend was occurring in office space during the course of this study. Downtown vacancy rates are lower than they have been in years, and rents are increasing. In the third quarter of 2007 the vacancy rate for the central business district dropped to 5.9 percent, down 0.9 percent from the second quarter, while the local suburban market’s vacancy rate increased 0.5 percent, from 13.2 to 13.7 percent. By comparison, the office vacancy rate in downtown San Jose, California, one of Portland’s competitor regions, was 21 percent.

In January 2007, developer Tom Moyer announced plans to build a 35-story high-rise combining office, retail, and condominium space on the block immediately west of Nordstrom. One downtown property owner said that he had “never been this excited about downtown,” and compared the outlook for the area to “the 1950s heyday when downtown was the place to be.” In March 2007, the Portland Development Commission adopted the Downtown
Portland Retail Strategy Update (prepared by the Portland Business Alliance in January 2007), and the PDC budget for 2007-08 earmarked over $12 million for improvements to the city-owned parking garage at SW Tenth and Yamhill, renovating The Galleria, and offering other assistance in retaining and attracting businesses to the downtown area.

Overall, non-traded-sector businesses make up a majority of the region’s private sector employment. These businesses (retail trade, health care, and professional services) and government agencies employ two-thirds to three-quarters of the region’s workers. But the growth of these businesses is largely tied to the rate of population growth of the region.

In contrast, businesses in the traded sector bring in new money from customers outside the region and serve as an economic engine for the region’s entire employment base. These businesses represent segments, or “clusters,” of the region’s economy that have been changing significantly over the last few decades, due to both macroeconomic forces (such as globalization, industry consolidation, and the outsourcing of manufacturing jobs to foreign countries); and concerted public and private sector efforts to diversify our local and regional economy so that it is less dependent on a single industry or employer.

The region’s diverse set of evolving and emerging employment clusters include the following: sports apparel and athletic gear; high technology; manufacturing and metals; distribution and logistics (including warehousing, truck operations, and businesses that support and benefit from traffic through the Port of Portland); sustainable “green” industries; creative services; professional and financial services; and food processing. Your committee interviews representatives from most of these sectors.

Photo by Susan Shepperd
Discussion

Factors that Impact Portland’s Business Environment

Evaluating Portland’s business environment required identification of quantifiable measures of its health, and assessment of their relative importance. Your committee asked witnesses to identify the most important factors that contribute to the business environment, and to indicate those that most need improvement.

From those discussions and a reading of relevant literature, your committee identified the following factors that are important to the health of Portland’s business environment:

1. Adequacy of local support and services, including:
   a. Professional services (accounting, legal, management consulting, etc.).
   b. Availability of land and utilities.
   c. Availability of utility services.
2. Availability of a workforce with appropriate skills and education.
3. Stable and adequate funding necessary for high-quality public education (K-12, community colleges, universities — both undergraduate and graduate).
4. Transportation infrastructure, including:
   a. Freight transport by road, rail, air, and water.
   b. Transportation options for customers and workers, including public transportation and public parking.
5. Availability of investment capital.
6. Availability of affordable housing.
7. Neighborhood livability, recreational and scenic opportunities, cultural attractions, and a public commitment to preserving these and other amenities.
8. Quality and responsiveness of government, including:
   a. The degree to which elected leaders understand and appreciate businesses and the challenges that businesses face.
   b. The degree of cooperation between government and business.
   c. The fairness of taxes, and whether they provide an adequate and reliable flow of revenue for public services.
   d. Well-funded and effective economic development programs.
   e. Public safety services (fire, police, health, etc.).
   f. A reasonable and effective regulatory environment.

Your committee considered whether some of these factors are more important than others, and the extent to which these factors are inter-related. Looking first at the question of importance, most witnesses agreed that a skilled workforce and a high-quality public education system are two of the most critical factors affecting the health of the business environment. However, those who shared this view also expressed different preferences depending on their business sector.

High technology and professional service employers, for example, recruit nationwide to hire highly specialized staff. The source of their skilled workforce extends beyond the local region. Consequently, for the purpose of adding to their workforce, the most important factors within the region are quality of life considerations that help them attract workers from a nationwide pool. Other factors include continuing education opportunities at the graduate level for employees, and the quality of
local public schools for the children of employees and prospective employees.

In contrast, sectors that recruit locally are more interested in the degree to which public schools, community colleges, and universities directly impact the local labor pools from which they hire their employees. Community colleges, in particular, frequently are seen as valuable providers of training programs for employees.

“[F]actors that make up the business environment are inter-related and sometimes in tension with each other... A mutually beneficial relationship clearly exists between a high-quality public education system and a well-prepared workforce possessing the skills required by various local industries... [But] growing congestion and rising housing prices, which are frequently byproducts of increased business activity and vitality, can [also] weigh heavily on both the business environment and the city's broader quality of life.”

Several factors did not rate highly overall, but are very important to certain industries. Professional and creative services firms value ease of domestic and international air travel, but are less concerned about freight transport. Local taxation is a critical factor for some witnesses, while others simply regarded it as a cost of doing business and not a significant consideration. Downtown retailers are concerned about public safety, and especially about issues relating to the homeless population (e.g. panhandling, public urination, sleeping in doorways of businesses), but witnesses from other sectors, even some operating in the central city, do not share this concern.

Even these few examples make it clear that no single prioritized list of factors determines the health of Portland’s business environment. Witnesses from different business sectors offered different lists of prioritized factors and, in some cases, two or more witnesses within a single sector cited different factors depending on their company’s specific strategic and operational requirements. As witness Joe Cortright, a consulting economist, replied when asked for his prioritized list: “One size does not fit all.”*

Moreover, factors that make up the business environment are inter-related and sometimes in tension with each other. One key set of positive interactions revolves around public education and the workforce. A mutually beneficial relationship clearly exists between a high-quality public education system and a well-prepared workforce possessing the skills required by various local industries. A high-quality public education system also can enhance businesses’ ability to recruit skilled workers from outside the area, whether recruiting workers with school-age children or those who seek continuing and/or graduate education opportunities.

At times, however, the various factors that affect the business environment are in tension with each other. Growing congestion and rising housing prices, which frequently are byproducts of increased business activity and vitality, *The inability to prioritize definitively the factors affecting the business environment is not unique to your committee’s assessment of Portland. Similar conclusions were reached in a paper by Dr. Peter Fisher, Professor of the Graduate Program in Urban and Regional Planning at the University of Iowa; “Grading Places,” Economic Policy Institute, Washington D.C., 2005.

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can weigh heavily on both the business environment and the city’s broader quality of life. Elected officials can frequently be placed in the difficult position of balancing the need to invest in maintaining that broad quality of life (in a growing city with an aging infrastructure) while stimulating and supporting the local economy. This, in turn, can create a conflict between maintaining low taxes and fees, which might be good for business, and maintaining and growing services and infrastructure, which is required for business success. Similarly, business leaders are frequently forced to balance the pursuit of profits in the near term with support for community investment that keeps Portland a magnet for talented workers over the long term.

Keeping in mind the way the various factors making up the business environment can affect one another, this report continues with a more in-depth discussion of the factors your committee considers most important. Of the factors listed on page 6, only the availability of professional services is not considered in greater detail, because none of the witnesses interviewed by your committee, nor research we conducted, indicated a deficit in this area.

**Workforce**

As noted earlier, nearly all witnesses identified the same two factors as most important to the business environment: a trained workforce and a good public education system. Witnesses commented that the region’s economic prosperity is linked to the skills of its workforce and said that one of Portland’s biggest draws is its deep pool of talent.

The population of the Portland metropolitan region in 2006 was just over 2.1 million people, with a labor force of about 1.1 million workers. They work for over 68,000 businesses, and about 135,000 are self-employed.14

The Portland region’s workforce is well educated; 36 percent of the population aged 25 and over has an associate’s college degree or higher level of education, compared to a national average of 24 percent.15 The percentage with a bachelor’s degree or higher is almost 10 percentage points above the national average.16 This young, educated talent pool is highly valued by most business sectors, especially apparel and sporting goods and creative services, which are among Portland’s strongest sectors.

In a recent study, economist Joe Cortright noted that “in a knowledge-based economy the skills and abilities of a region’s residents have become the decisive factor in shaping economic prosperity.” While Portland ranked 22nd out of the 50 cities studied for “young and restless” (25- to 34-year olds with at least a four-year college degree), it experienced a 50 percent increase in this desirable demographic between 1990 and 2000, which ranks fourth highest among the 50 largest U.S. metropolitan regions.17 Cortright says, “We emphasize the change variable because it picks up the direction the economy is headed, and we still have opportunity to grow this demographic group.”

Nationwide, much has been made about loss of manufacturing jobs, whether to globalization and relocation to lower-wage countries or to increased productivity and automation. Therefore your committee was surprised to learn that Portland-area manufacturing firms are short of skilled workers and fear the situation will become worse. Norm Eder of the Manufacturing 21 Coalition told your committee that “a huge percentage of workers in manufacturing are approaching retirement and no one knows
where their replacements will come from.” Numerous witnesses in industry and education echoed his concerns that the local employment pipeline (high schools and community colleges) for these skilled, family-wage manufacturing jobs is nearly empty. Manufacturing jobs pay an average of $42,000 annually in Oregon, in contrast with a state average of $36,200 for all private non-farm occupations, yet manufacturing companies increasingly turn away work because they lack sufficient numbers of skilled workers.  

“Manufacturing jobs pay an average of $42,000 annually in Oregon, in contrast with a state average of $36,200 for all private non-farm occupations, yet manufacturing companies increasingly turn away work because they lack sufficient numbers of skilled workers.”

The health sector is also facing a major shortage of nurses, primary care physicians, and other health care professionals. According to the Oregon Employment Department, health care employers will need 59,000 new employees to fill job openings between 2004 and 2014. About half of the health care openings will stem from growth in demand, the other half will come from retirements. But local health care education programs, like nursing, cannot accommodate the volume of qualified applicants.

Your committee found that the caliber of the Portland area’s workforce is currently a competitive advantage. To remain so, the city and region must maintain a skilled workforce in diverse fields, provide opportunities for continuing education and training, and match unemployed or underemployed workers with openings.

**PUBLIC EDUCATION**

The public education system, which includes K-12 public schools, community colleges, and universities, was the second factor consistently cited by business witnesses as important to the business environment.*

Public education affects the business environment in three ways:

1. It provides businesses with a supply of young people prepared to enter the workforce.
2. It provides workers with opportunities to update existing skills and to add new skills in a rapidly changing business environment.
3. It is a factor for attracting companies and individuals considering relocation to the region.

While employers differ on which of these three factors is most important, all agree that the public education system is a very important component of the business environment, and they are concerned by recent trends.

**K-12**

To better understand the financing of K-12 schools in Portland, your committee recommends the excellent report on that topic published by City Club

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* We do not ignore the many fine private schools and colleges in the Portland area. These schools and colleges do an excellent job of serving their students. Private schools in the Portland region, however, serve only a small fraction of the total student population, less even than in many cities of comparable size. Consequently only public educational institutions are considered in this report.
in March 2007. The report provides information about the five public school districts in Portland (Portland, Centennial, David Douglas, Parkrose, and Reynolds), documents the sequence of events that moved a significant portion of school funding in Oregon from the local level (paid primarily by property taxes) to the state level (paid primarily by income taxes), and reports that the result has been highly unstable funding that negatively affects school operations. The report also explains the Quality Education Model, which was adopted by the 1995 Oregon Legislature to guide school funding decisions. It should be noted that the legislature has never funded K-12 education at the level recommended by the Quality Education Model.

Your committee offers another view of the issue, that of public education’s effect on the business environment and of the changes needed in education funding to improve the business environment (which are fully consistent with the changes recommended in City Club’s 2007 school funding report). While your committee recognizes that increased and stable funding will not guarantee improved educational outcomes, we also recognize that state funding for public education in Oregon is far below the level recommended by the Quality Education Model. This low and unstable funding creates, at the very least, a perception among business leaders that the state is neither sufficiently committed to providing a quality public education nor adequately preparing the state’s future workforce.

Since the state assumed a significant portion of the responsibility for funding public K-12 education, three different legislative assemblies (1991, 1995 and 2000) enacted either laws or a constitutional amendment mandating sufficient funding for excellence in education. The Oregon Legislature, however, has consistently violated its own legislative mandates. According to the latest available statistics from the U. S. Census Bureau, Oregon ranked 31st among the 50 states and the District of Columbia in terms of per pupil K-12 funding in 2005–2006, down from 16th in 1992. When measured as a percentage of the average personal income of the state’s citizens, Oregon’s national standing dropped even more precipitously, falling from 11th in 1992 to 39th in 2004.

The Quality Education Model, mentioned above, was established as a metric-based formula to determine the level of spending required to provide high-quality public education in the state. In December 2006 Oregon’s public schools were being funded at a level more than $1.2 billion below that indicated by the QEM.

Besides receiving less funding than indicated by the QEM, Portland Public Schools itself faces numerous challenges, compared to other school districts in the state, which place additional financial strains on its schools: a comparatively higher proportion of students with special needs, older buildings that are costly to maintain, and a large proportion of more experienced teachers with higher-than-average teacher salaries.
One negative outcome of the reduced funding has been a reduction in the length of the school year. Most states, including California and Washington, require schools to provide at least 180 days of instruction per year. In contrast, the average Oregon high school student is in school about 165 days per year. Students in Portland Public Schools are about 100 hours short of even the sub-standard Oregon minimum, or about 18 days short of national school practice.25

In a year with high revenue projections, Governor Kulongoski and the 2007 legislature increased funding for the 2007-2009 biennium by 18 percent, after several years of reduced funding. According to the governor, “after adjusting for inflation and enrollment growth... [this increase]... will put Oregon back on par with the national average of per student investment.”26

This roller-coaster approach to school funding negatively affects Portland’s business environment by 1) reducing the readiness of students to enter the workforce, 2) raising red flags for prospective employees and companies as they consider locating in Portland, and 3) creating an unpredictable taxation system disliked by most businesses.

Higher Education

Your committee found that investment in higher education also provides strong economic returns. Businesses such as Nike, A-dec, CH2M Hill, Leatherman Tools, Umpqua Bank, Wieden+Kennedy, Reser’s Fine Foods, and Columbia Sportswear were all founded by graduates of Oregon’s public universities. The same is true of cultural and social service institutions. Care, Oregon Bach Festival, New Avenues for Youth, Oregon Shakespeare Festival, and Friends of the Children were all founded by graduates of Oregon’s public universities. Witnesses cited the faculties of Portland State University and Oregon Health and Science University as major economic assets that bring federal tax dollars to our city, as well as a cadre of talent.

But here, once again, trends are disturbing. Oregon’s investment in higher education has fallen dramatically since 1990. In 2006, Oregon’s contribution per student to the Oregon University System was $3,858 — down from $4,292 in 1990. In contrast, in 2006, Washington’s per student funding was $8,164.27 Adjusting the 2006 Oregon figure for inflation, expenditures (in constant dollars) per student fell from $4,292 in 1990 to $2,442 in 2006, a 43 percent cut.28

At the beginning of 2006, Oregon ranked 46th among the states in per-student higher-education funding, while Washington ranked 21st and California ranked 24th.29 The legislature provided only 17 percent of Oregon’s higher education budget, down from 27 percent ten years ago. This decline led to dramatic tuition increases.30 Average annual tuition and fees for an Oregon student aiming to graduate in four years increased 47 percent since 2001, to $5,520 for 2006-2007.31
higher education spending in Oregon with that in other states where the Portland region’s primary competitors are located — Arizona, California, Colorado, Nevada, Minnesota, Texas, Washington, and Utah — only Colorado spends less than Oregon. In 2005, California spent $299 per capita and Washington spent $225 per capita, while Oregon’s spending per capita in 2005 was $172.32 Witnesses expressed concern that the quality of Oregon’s public universities are falling behind other states due to Oregon’s comparatively low educational expenditures per capita and that this in turn is having an increasingly negative impact on Portland’s business environment.

Earning a degree is also taking longer for many students. A recent survey of 4,300 community college and university students indicates that about 30 percent are unable to earn their degree within the traditional schedule (2 years for community college; 4 years for university) because of an insufficient number of required course offerings.33

Governor Kulongoski initially requested that the 2007 legislature fund a 17 percent increase for higher education. At the time, Governor Kulongoski proposed to establish “a stable path to grow and restore the losses of the last 25 years, which will help recruit and retain quality faculty, make higher education more accessible and affordable for more students, and ensure Oregon’s universities provide our students with an education that prepares them for a 21st century workforce.”34

Early in the session the legislative leadership responded with a far more modest increase, but major public outcry and an unexpectedly favorable revenue projection allowed the legislature to enact an 18 percent increase. Put in perspective, however, the new figure is an increase of only 15 percent over the past 10 years, far below the rate of inflation.35 That year’s higher education funding was an important step in this direction, but it will be meaningful only if it is a starting point for a consistent commitment to quality.

Witnesses also expressed their opinion that the Portland region needs a “world-class university,” citing Boston’s Route 128, built around Harvard and MIT; Silicon Valley, built around Stanford University; and North Carolina’s Research Triangle Park, built around universities in that region. Your committee concluded that the Portland region is indeed moving in that direction, given the University of Oregon’s recent expansion in Portland and the impressive development of Oregon Health and Science University and Portland State University over the past 30 years, especially considering the very unstable and diminishing public funding of the past decade. The 2007 legislature enacted Senate Bill 582 allowing state universities to establish and administer venture capital funds. Your committee hopes this legislation will help Portland State University and Oregon Health Science University to better profit from the intellectual capital of their faculty. Both the legislature and regional businesses should commit to continue this progress.

Top “knowledge workers” in our area require continuing educational opportunities to remain at the peak of their fields. While a number of programs have been established over the past few decades, many workers still must travel elsewhere to access the post-graduate training they need. Your committee believes Portland universities and consortia should expand local offerings of this kind.
In summary, Oregon must provide stable funding for public education at all levels and through all phases of the economic cycle. Failing to do this damages the business environment of Portland, as well as the rest of the state. It also threatens the quality of the workforce. Other states (especially our West-Coast competitors) are doing much better than Oregon in funding public education, and this is an area where many of our international competitors also are in the lead.

Your committee emphasizes as strongly as it can that providing adequate and stable funding for public schools and for higher education is essential to a healthy business environment. The business community’s support for redirecting the 2007 “corporate kicker” to a rainy day fund is a strong statement to that effect.

Transportation

Portland is located at the confluence of two navigable rivers, offering businesses access to ports anywhere on the Pacific Rim. It has two interstate highways and major rail lines running north, south, and east. The city’s businesses are also served by relatively inexpensive hydroelectric power, oil, and natural gas pipelines running north and south, and the only international airport within 150 miles. As a consequence, Portland is a key domestic and international gateway and freight hub.

Moving both freight and people into, from, and through Portland is of enormous importance to the business environment. As Michael Powell of Powell’s Books said at a City Club Friday Forum, “we will be in a ton of hurt if our traffic systems fail.” One out of five jobs in Oregon is either directly related to transportation or heavily reliant on it, and the proportion is higher in the Portland region. 

According to the 2005 downtown business census conducted for the Portland Business Alliance, 49 percent of those employed in downtown Portland resided outside Portland’s city limits, but within Multnomah, Clackamas, Clark, and Washington counties. Forty-eight percent of all downtown workers drove to work alone, while an equal number used mass transit, walked, or biked to work. By this measure, the city and the region’s foresight in investing in mass transit and alternative forms of transportation has served the city well.

“The region’s patchwork approach to transportation decision making and funding may have served the region in the past, but there are strong signs that it will not continue to be sufficient in the future.”

Increasingly, the pattern of living in the suburbs and working downtown is expanding to living and working in the suburbs, often involving suburb-to-suburb commutes. Suburb-to-suburb commuting accounts for 41 percent of metro area rush hour traffic. Because Portland’s system of mass transit is designed primarily to move people between suburbs and the city center, a suburb-to-suburb commute that can be driven in 30 minutes often can take more than two hours on mass transit.

Authority and oversight for the region’s transportation infrastructure is highly fragmented. The city of Portland has surprisingly little control over the transportation infrastructure on which
it depends. Authority and budget oversight for most of the region’s highways and waterways are at the state and federal level. Air and water transportation fall under the Port of Portland, and mass transit under TriMet. Metro prepares a regional transportation plan every five years, and allocates federal transportation funds to local governments. Multnomah County maintains five of the bridges across the Willamette River, while the Oregon Department of Transportation is responsible for maintenance and operation of the St. Johns, Ross Island, Marquam, and Fremont bridges. Union Pacific Railroad owns the Steel Bridge, which is a critical nexus for the region’s transit system. Responsibility for the I-205 Glenn Jackson and I-5 Interstate bridges, which link Oregon and Washington, is shared by the two states.

City officials have attempted to control automobile-induced air pollution without harming economic vitality, and they continue to experiment with how best to meet these sometimes conflicting objectives. In addition to subsidizing short-term parking in Smart Park garages, replacing many coin-operated parking meters with “smart card” meters, and improving mass transit, the city is now beginning to experiment with eliminating painted parking spaces on the street. According to Ramon Corona, the city’s parking control manager, the practice will increase the number of cars parked in a city block from 8 or 9 to as many as 13, depending on the size of the cars.

The region’s patchwork approach to transportation decision making and funding may have served the region in the past, but there are strong signs that it will not continue to be sufficient in the future. A recent Port of Portland and Metro study indicated that traffic chokepoints in the region currently include I-5 across the Interstate Bridge, I-84 between downtown Portland and I-205, Oregon 99E from the Ross Island Bridge to Oregon City, Highway 26 west of Portland, and Highway 217 to its south.

Mayor-elect Sam Adams, who, as a city commissioner, oversees the city’s transportation bureau, has said, “We’ve got dozens of bridges that could collapse right now or liquefy during an earthquake. Add to that the 600 miles of streets needing repairs and intersections where people are dying in accidents on a regular basis and we’ve got real needs that have to be addressed.”

The estimated costs to address these problems run to the hundreds of millions of dollars, but only $14 million was made available in the 2007-08 budget.
Multnomah County Commissioner Maria Rojo de Steffey has proposed closing the Sellwood Bridge, which has a federal sufficiency rating of only 2 out of 100 (compared with 50 out of 100 for the Minneapolis bridge that collapsed in 2007). The county is currently studying whether to repair or replace the bridge, with projected costs nearing $450 million. Yet Multnomah County Chairman Ted Wheeler recently said that the county, which is responsible for several Willamette River bridges, does not have, and never will have sufficient resources to maintain them. Wheeler proposes creation of a regional bridge authority.

Other studies, including the City of Portland 2005 Freight Master Plan, the Metro 2035 Regional Transportation Plan, and the TPAC Workshop on February 12, 2007, all concluded that traffic congestion is already costing money in lost time, fuel, and missed schedules, and will only get worse if the city, county, state, and federal authorities do not start now to address the situation. Portland Business Alliance members concurred with this assessment in a recent survey where they ranked congestion just behind education as the biggest problem facing Portland’s business community.

A 2005 study commissioned by the Portland Business Alliance, Port of Portland, and Oregon Department of Transportation noted that the region’s population is growing faster than the capacity of the transportation systems to carry people and freight within the region.

The report cited specific ways that transportation congestion has negatively affected Portland businesses:

- Providence Health Systems reported that congestion has routinely slowed medical deliveries, requiring them to relocate warehousing and support operations at a cost (independent of construction) of $1-1.5 million in 2006-07.
- OrePac increased inventories by 7 to 8 percent to compensate for congestion delays, representing a lost opportunity for other investment.
- PGE spends an estimated $500,000 per year in additional maintenance labor costs due to transportation delays.

The study also cautioned that if transportation gridlock were to become a daily reality, businesses would not be able to function, leading to large-scale business failures, layoffs, or relocations. The result would be a loss of up to $844 million annually by 2025 ($782 per household in the region) and 6,500 jobs. Pointing out that additional regional investment in transportation would generate a benefit of at least $2 for every dollar spent, the study also cautioned that currently planned transportation investments will not keep pace with traffic growth.
Predictions for one million more people in the region by 2025 will add 48 percent more cars and 116 percent more trucks to the region’s roads. If improvements are not made, businesses will become prisoners of traffic congestion.

The division of responsibility for transportation in the Portland region has at least two negative consequences. First, jurisdictions often try to use the planning and funding allocation process to achieve their own narrow objectives rather than embracing a more holistic approach. Commissioner Adams claimed this has caused the Metro transportation planning and funding allocation process to be more a program for “dividing the spoils” than a strategic long-term plan. Second, this fragmented approach makes it difficult to assemble resources to leverage major investments.

Your committee believes that meeting the region’s transportation challenges will require holistic assessment, effective prioritization, creative thinking, and cooperative problem solving. Local, regional, and state government officials must think regionally and put behind them the assumptions used by a generation of transportation planners. Government and business leaders must work together to educate the public about the need for large-scale investment in the region’s transportation infrastructure — whether through tax increases, fees, or toll options. Unless this is done, our patchwork-approach to transportation planning will have a major negative impact on Portland’s business environment.

Competitor cities, including Denver and Phoenix, are moving ahead with multi-billion dollar transportation investments in freeways and roads, light rail and rapid transit. The Oregonian has reported that while these cities are thinking ahead about new leaps in scale, the Portland region consists of “collections of separate constituencies that offer unconnected dreams.” Congressman Earl Blumenauer cautioned that “other communities are stepping up... on a scale of local investment that we don’t even contemplate any more.”

Business leaders have called on the legislature to spend an extra $350 million a year on highway improvements to prevent congestion, but legislative leaders have been unwilling to raise the taxes required. Based on proposals developed by Portland’s Safe and Sound Streets Stakeholder Committee, the city of Portland and Multnomah County have proposed new revenue sources, including a county vehicle registration fee and a city street maintenance and safety fee (in water and sewer bills) that will include “green discounts” that will offset up to 30 percent of the fee. The city and county held a series of meetings to gather citizen feedback, and City Council is expected to make a decision by July 2008 as to whether to refer the revenue-generating measure to voters in the 2008 general election.

Important questions to be answered include the following:

- Is a regional bridge authority the best approach? How would it relate to other regional transportation agencies?
- Who can best lead the effort to attract federal and state funding, to persuade all the units of government to pay their share, and to educate and persuade the public to accept new taxes, fees, or tolls if they are shown to be necessary?
In response to the second question, possible lead agencies include: 1) Metro, with a revised charter to expand its authority, 2) TriMet, expanding its role from only mass transit to a broader regional transportation authority, or 3) a newly created regional transportation commission.

Your committee recommends that City Club initiate a comprehensive study to address transportation issues in the Portland region.

**Capital Availability**

Your committee recognizes that the availability of capital is a key ingredient in business growth and prosperity. Although some witnesses worried that young businesses requiring growth capital may not have adequate local access to private equity from individual investors or venture capital firms, most witnesses were not concerned about a lack of local capital. It is your committee’s view that Portland has an array of capital resources that is adequate and typical for a city of its size.

The relative strength of Portland’s real estate market has had a positive impact on home equity loans (typically $200,000 or less), which are a common source of capital for launching new businesses. The average value of property in the Portland region increased by 68 percent from 2002 to 2007, making capital available to many.

In July 2003, the legislature passed House Bill 3613 to encourage the growth of small businesses in Oregon. The legislature tasked the Oregon Investment Council with designing and implementing a program to accomplish this mandate, using $100 million from the Oregon Public Employees Retirement System. OIC chose to develop a “fund of funds,” the Oregon Investment Fund, managed by Credit Suisse’s Customized Fund Investment Group.

According to the fund’s Web site, the Oregon Investment Fund commits capital to private equity and venture capital funds that in turn invest in companies located primarily in Oregon, as well as in the Pacific Northwest. In addition, a percentage of the assets of the fund may be invested directly in operating companies alongside the fund’s private equity and venture capital managers. The OIF encourages its member funds to use “commercially best efforts” to invest in Oregon and Pacific Northwest companies, while honoring its fiduciary responsibility to earn the best return on investments.

An Oregon Investment Fund manager noted that in addition to a direct investment in Kryptiq (an Oregon company), as of late 2007 the partner funds had invested approximately $53 million in eight Oregon or Pacific Northwest companies that employ 1,900 workers in the Pacific Northwest (including 367 in Oregon). He also pointed out that other syndicate members of the venture capital partners had invested an additional $30 million in these companies.

In 2007, the legislature followed recommendations from the Oregon Innovation Council by enacting Senate Bill 579, allowing the Oregon Growth Account, an investment account of the Education Stability Fund, to “make investments in or provide seed capital for emerging growth businesses.” By statute, the Oregon Growth Account must concentrate its investments within Oregon despite the possibility of reduced returns. On a related front, Senate Bill 582 allows state universities to establish and administer venture capital funds, allowing more capital to flow into projects that can have long-term positive gain for both the state and Portland.
“Angel investors” are high-net-worth individuals who typically invest in companies near where they live and work. The Portland Business Journal saw “a noticeable increase” in local angel investment in 2006 and 2007. The Portland Venture Group is a group of angel investors who are constantly looking at investment opportunities in the region. Portland Angel Network and the Women’s Investment Network, which are part of the Oregon Entrepreneurs Network, are also active in the community. OEN sponsors Angel Oregon, an annual contest in which start-up companies compete to win as much as $200,000 in funding from angel investors. In early 2007, Portland Angel Network and Women’s Investment Network created the Oregon Angel Fund where members pool their money and seek to invest in two to four early-stage growth companies per year.

About a dozen venture capital companies are located in Oregon, most in the Portland region. Some, including Capybara Ventures and Northwest Venture Partners, are seed funds that invest in a manner similar to angel investors. Intel Capital, which is one of the world’s largest venture capital firms, has its main office in Hillsboro, yet it invests a relatively small percent of its capital in Oregon companies.

Venture capital investments in Oregon companies declined significantly in the first half of this decade. In 2006, Oregon had six venture-capital-funded start-ups, totaling $18.4 million. In contrast, Washington state had eight start-ups funded for a total of $32 million in the first quarter of 2006 alone. However, Oregon startups raised more venture capital in the first nine months of 2007 than the state attracted in any of the prior five years.

Based on the information your committee has gathered, most regional companies are able to obtain sufficient funding to meet their capital needs. The area where the need is greatest — funding for small companies — is now the area receiving the most legislative and private sector attention. Your committee concludes that current capital resources are adequately meeting the investment needs of businesses in the region.

**Housing**

The availability of housing that is not only affordable, but also adequate for working families with children, is a concern for many businesses. One business leader told your committee that “our young employees did not move to Portland to live in a 400-square-foot condominium,” and other witnesses expressed concern that the perceived trend in Portland away from the traditional house-and-yard style of living might have a negative impact, in the long run, on Portland’s livability.

Title 7 of Metro’s Functional Plan gives Metro the mandate to ensure that all cities and counties in the region provide opportunities for affordable housing for households of all income levels, with the intent of creating housing opportunities commensurate with wage rates across the region and reducing concentrations of poverty.
Housing prices in Portland have historically been lower than in other major cities on the West Coast. Recently, however, home prices have been rising significantly, as can be seen in Figure 1.

Even with these recent increases in housing prices, Portland continues to attract new residents because of its comparably affordable housing. The city auditor’s year-end report for 2007, however, highlighted concerns about rising housing prices. The auditor also reported that “the percent of homeowners and renters who spend more than half of their incomes on housing has reached a new high.”\(^6\) Portland Public Schools attributes its declining enrollment in large part to a lack of affordable housing within its boundaries.\(^6\)

According to the Regional Multiple Listing Service, the Portland-area median home price dropped to $285,000 in April 2007, down from $286,200 in March. That was the first March-April drop since 2001.\(^6\) Still, on a year-to-year basis, prices in the city were up in October 2007, though there were drops in some parts of the region.\(^6\) And while annual appreciation has topped 12 percent in parts of the city, the median home price in some parts of Portland (North and Southeast) remains below the median price elsewhere in the region (Beaverton, Gresham, Tigard, Hillsboro, and Clark County).\(^6\)

Housing costs in Portland have generally been lower than most competitor regions, particularly those on the West Coast. Should the cost of housing continue to rise in the region, however, it will become an increasing concern for businesses. Housing could easily tip from a competitive advantage to neutral or negative. As trends signal reason for

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**Figure 1: Portland Metro Area\(^1\) Residential\(^2\) Home Prices**

<table>
<thead>
<tr>
<th>Item</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Average Sales Price</strong></td>
<td>$213,900</td>
<td>$222,500</td>
<td>$246,000</td>
<td>$282,900</td>
<td>$332,600</td>
<td>$342,000</td>
</tr>
<tr>
<td><strong>Median Sales Price</strong></td>
<td>176,900</td>
<td>185,000</td>
<td>204,500</td>
<td>237,500</td>
<td>$270,500</td>
<td>$290,000</td>
</tr>
<tr>
<td><strong>Average Price Appreciation(^3)</strong></td>
<td>4.8%</td>
<td>5.6%</td>
<td>10.6%</td>
<td>15.0%</td>
<td>14.1%</td>
<td>6.3%</td>
</tr>
<tr>
<td><strong>Median Price Appreciation(^4)</strong></td>
<td>4.9%</td>
<td>10.2%</td>
<td>16.1%</td>
<td>13.9%</td>
<td>7.2%</td>
<td></td>
</tr>
</tbody>
</table>

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\(^1\) The metro area includes the following Oregon counties: Clackamas, Columbia, Multnomah, Washington, and Yamhill. It does not include Clark County in Washington state.

\(^2\) Residential includes detached single-family homes, condos, townhomes, manufactured homes, and multi-family units when one of the units is sold.

\(^3\) Average price appreciation based on a comparison of average price to the previous year average price.

\(^4\) Median price appreciation based on a comparison of median price to the previous year median price.

Source: Regional Multiple Listing Service (RMLS™)
concern, attention from developers and public officials is needed to maintain this advantage.

QUALITY OF LIFE

Historically, Portland’s high quality of life has included short commutes, affordable housing, and quality public schools. As discussed earlier in this report, all of these attributes are currently threatened. In this section we consider a number of additional quality-of-life factors. These factors impact Portland’s business environment, either directly or because they make the area attractive to prospective employees and businesses.

Businesses thrive in communities where people want to live, and increasingly so, people want to live in Portland. Oregon’s natural assets of mild climate and scenic outdoors, along with the city’s rich cultural life and robust intellectual environment, contribute to Portland ranking very high in surveys of the most livable cities in the United States, especially those emphasizing factors that appeal to members of the young creative class. Portland was recently ranked in the top five metropolitan areas in attracting what demographers are calling “the young and restless,” 25- to 34-year-olds who are increasingly viewed as a city’s economic future.65

Attracting and keeping the young creative class in this age range is key to building and supporting a knowledge-based economy. As noted earlier, Portland is doing very well in this regard. While this demographic declined nationally from 1990-2000, Portland, by contrast, posted remarkable gains. Portland experienced the fourth fastest growth rate in the nation for attracting 25-34 year olds with a college education and the eighth fastest growth rate in this age group regardless of education.66

Many of these newcomers are attracted by Portland’s downtown and central city neighborhoods, which are vibrant and walkable, and offer convenient mass transit, good restaurants, active arts scenes, and civic festivals.

Photo by Cheryl Juetten

Many witnesses highlighted Portland’s natural beauty and outdoor recreational opportunities. Proximity to Mount Hood, the Columbia Gorge and the Pacific ocean beaches, and a wealth of parks and green spaces make the region attractive. These assets contribute to a clean, fertile, green environment that supports citizens who live their values by recycling, biking, and supporting other environmentally-friendly practices. In June 2006 Portland was ranked first in a widely publicized survey of 50 American cities for sustainability.67 More recently, the 2007 Oregon business leadership summit identi-
fied sustainability as one of Oregon’s unique and competitive advantages and encouraged further development of the sustainable business sector.68

A number of actions have been taken to maintain or improve the region’s livability: Metro has a voter-approved charter and an urban growth management plan, with green corridors along transportation routes to nearby cities to control development. In 2006 voters approved $227.4 million in bonds to fund more than 100 projects to protect water quality, improve parks, preserve natural areas, and provide access to nature.

Besides the direct impact on the retail, restaurant, entertainment, and tourism sectors, the city’s cultural amenities contribute to a positive business environment by helping attract and retain workers in the area. A number of witnesses commented that Portland’s breadth of cultural offerings is remarkable for a city of its size and that such offerings serve as an incentive when recruiting prospective employees.

For all of the above reasons, state, regional and city governments, businesses, and individual citizens should recognize that Portland’s quality of life is an important competitive advantage to be developed and maintained.

**Effective Government**

**Relations between City Government and the Business Community**

One essential requirement for a healthy business environment is an effective working relationship between business leaders and government officials, each understanding the important role of the other in the overall business environment, and all working together to improve it. Your committee believes that the absence of such a relationship is the root of both the dissatisfaction that we heard from witnesses and characterizations of Portland as “unfriendly to business.” While much of the blame for the absence of such a relationship may result from a combination of inexperience, insensitivity, and inaction on the part of local government leaders, the business community also shares responsibility. Fortunately, the situation has been turning around, with both government and business contributing to the improvement.

Some concerns relating to the city’s reputation are substantive: taxes are too high, or the permitting process is slow and cumbersome. Most of the witness testimony, however, was subjective. A significant number of business leaders interviewed by your committee mentioned the city’s image as hostile to business. Some believe that city officials have not cared much about whether businesses locate or succeed in Portland. Many in the business community feel there has been no “welcome mat” for business at City Hall.

Witnesses cited Columbia Sportswear’s decision to move its headquarters out...
of the city as symbolic of poor relations between city government and the business community. This incident may have been a wake-up call for city officials. When Tom Potter became mayor in January 2005, he attempted to improve relations between the mayor’s office and the business community, and convened a business summit in June 2005 as part of that effort. The *Portland Business Journal* editorialized that the event was “more a feel-good event than a business summit.” But feel-good events have their place, especially in a city in which there has been a perception of antagonism between city officials and many business leaders.

While numerous witnesses remain dissatisfied with relations between city government and the business community, others said that relations have improved over the last three years. Mayor Potter meets each month with the Portland Business Alliance, and Commissioner Adams’s commitment to visit “100 businesses in 100 days” after he took office in January 2005 generated a mostly positive response from witnesses. Commissioners Leonard and Saltzman, and former commissioner Sten, also made efforts to reach out to the business community.

Yet no matter how business friendly a mayor or city commissioner may be, numerous witnesses argued that the structure of Portland’s government makes it difficult to coordinate between bureaus. According to the city’s charter, the mayor’s authority is coequal with that of the four commissioners; his only additional authority comes from his ability to assign city bureaus to the individual commissioners. The result of such a structure is often a lack of consistency and accountability.

Citizens clearly see some advantage to Portland’s “divided government” structure, as indicated by recent voter rejection of two “strong mayor” charter proposals in 2002 and 2007. Nonetheless, a “divided government,” with agencies reporting to different “bosses,” demands special attention to assure that businesses see a single face when dealing with the city. Insufficient attention to providing a seamless point of contact for businesses contributes to the perception, at least for some in the business community, that city bureaus exist to enforce rules, not to help businesses. Portland commissioners should ensure that they and their agencies provide that seamless point of contact, and not leave it to businesses to negotiate the interfaces that are required.

During the course of this study, Portland’s City Council took action on four fronts that were frequently criticized by witnesses: (1) referring reforms to the police and fire disability system
(adopted by voters), (2) restructuring the Business Income Tax to reduce the impact on many small businesses (adopted by council), (3) adopting the SAFE committee recommendations for improving downtown street and sidewalk access (currently being implemented), and (4) referring a charter amendment to replace the “divided government” described above with a “strong mayor” form of government with all bureaus under a single elected official (defeated by voters).

With respect to the concerns about the permitting process, in the city auditor’s 2006-2007 annual report on city government performance, 72 percent of the “customers” surveyed about the timeliness of building permit reviews considered the city’s effort “good” or “very good,” compared with only 61 percent in 2001-02. However, businesses surveyed reported only 36 percent satisfaction on the overall quality of Portland’s building permit services, up from 29 percent in 2001-02. City Planning Director Gil Kelley asserted that “there has been a big turnaround in recent years. The city has made great strides in improving the permitting process.” In his State of the City address in January 2007, Mayor Potter noted that “permitting has been streamlined, and developers and the community can now expect a single point of contact within the city.”

Nevertheless, there is still room for improvement. City Council members set a tone for the city, and their rhetoric has impact. Witnesses commonly cited four examples of anti-business attitudes: (1) the failed effort by the city to purchase Portland General Electric, (2) the city’s responsibility for cost overruns in building the aerial tram, (3) lack of responsiveness to complaints about homeless people who interfere with access to business entrances, and (4) a pizzeria that had to pay “exorbitant” fees to relocate its business across the street. Had your committee conducted interviews later in 2007, the city’s failed attempt to rename a street for Cesar Chavez likely would have made the list.

These examples emphasize two more important issues regarding the business climate: first, that perceptions are often as important as facts, and second, media coverage can reinforce perceptions.

Your committee found that, in each of these high-profile incidents, the situation was not as black and white as witnesses claimed or as the media portrayed them. The facts and nuance of each situation were sometimes overlooked.

Business leaders themselves, by their own public statements, help create the image of Portland as a favorable or unfavorable place to do business. The media is quick to report business criticism of government and too often is used by stakeholders as a substitute for face-to-face discussion. One business leader told your committee that steady criticism of government by businesses discourages customers from patronizing business. He encouraged businesses to criticize government officials in private meetings rather than through the media.

More broadly, your committee found widespread public perception that the business community does not shoulder its fair share of the Oregon tax burden, a point that pollsters interviewed said was evident in their polling. A letter to the editor published in The Oregonian illustrates the point: “Business leaders say Oregon’s average schools and student success aren’t good enough,” the writer said, and then went on to point out that on the previous day the paper had
published an article stating that Oregon ranks 50th of 50 states for the share of state budget paid by corporations. The writer concluded that “perhaps business leaders need to put their money where their mouths are and be part of the solution.” In 2007 business leaders made an excellent move in the right direction by supporting creation of a state rainy-day fund and the diversion of $300 million in scheduled corporate kicker rebates into the fund.

Dialogue is a two-way street, and your committee believes that city government and the city’s business leaders should be making greater efforts to engage in productive dialogue. For too long, city government and the business community have regarded each other with suspicion. Both sides have seemed more eager to criticize the other than to work together to find practical solutions to issues that face the city.

Some witnesses from the business community wondered why local business executives are not more active in government. Portland has historically had individuals from the business community visibly engaged through their participation in the many boards and commissions making public policy decisions. Your committee feels it would be a positive development for city and business leaders to create a climate where this type of shared leadership is more common.

Fortunately, recent trends show improvement. It appears that both city officials and business leaders appear to have a genuine desire to move in the direction of greater collaboration. It is important that this trend continue, even be accelerated.

An important element in the effort to improve Portland’s business environment is education and communication, something City Club of Portland does well. However, an analysis of City Club Friday Forums over a recent 30-month period showed what while there have been many programs related to the business environment (e.g. economic forecasts, education report cards, developments at the Port of Portland, discussions of public ownership of utilities, traffic congestion, affordable housing, and public safety), there have been few programs that offer specific business perspectives on such issues.

City Club could help improve public dialogue regarding the business environment by incorporating more business perspectives into their Friday Forums and focusing more attention on addressing points of friction between business and government. Shortly before publication of this report the Club presented a program on regional economic development with the CEO of Greenlight Greater Portland, which is the type of program your committee encourages.

Taxation
According to experts interviewed by your committee, taxes are not the primary consideration in deciding where to locate a business. Issues such as access to raw materials, availability of adequately trained workers, access to transportation, and proximity to mar-

“Dialogue is a two-way street, and your committee believes that city government and the city’s business leaders should be making greater efforts to engage in productive dialogue.”
kets are more important. Nevertheless, taxes are viewed as a cost of doing business, sometimes influencing business decisions regarding where to locate. The decision by Genentech in 2006 to locate a packaging and distribution facility in Hillsboro, as opposed to a locality in another state, was attributed in part to recent changes allowing Oregon corporations to use a “single sales factor” to determine its corporate tax liability.*

Businesses also rely on tax-supported public services, such as public education, transportation systems, and police and fire protection. In some Portland neighborhoods, businesses have voted to establish Local Improvement Districts where additional taxes are collected for provision of additional services. For instance, the downtown Portland LID pays for services like extra police patrols and more frequent street cleaning.

Since the Portland region spans two states, multiple counties and cities, business taxes vary by locale. At the state level, the tax systems of Oregon and Washington have markedly different approaches. While both states collect property taxes, Oregon relies heavily on personal and corporate income taxes, as well as fees, to fund public services. Washington, on the other hand, has neither a personal nor a corporate income tax, relying heavily on a sales tax and a business and occupation tax. Businesses on the Portland side of the Columbia River pay transportation taxes to TriMet. Businesses on the Vancouver side of the river do not pay TriMet taxes, although 0.5 percent of the local sales tax supports C-Tran.

Additionally, in Oregon, businesses organized as sole proprietorships, or “pass-through” entities such as S corporations or partnerships, pay taxes on their profits as reported on the personal income tax returns of their owners.

“... Oregon has the tenth most favorable state business tax climate in the nation; Washington, which includes two counties in the Portland region, ranks eleventh.”

State Taxes

According to the Tax Foundation, a nonpartisan organization that educates tax payers about tax policy, Oregon and Washington have favorable tax climates for business. The Tax Foundation’s State Business Tax Climate Index compares states in five areas of taxation impacting businesses: corporate taxes, individual income taxes, sales taxes, unemployment insurance taxes, and taxes on residential and commercial property. According to this criteria Oregon has the tenth most favorable state business tax climate in the nation; Washington, which includes two counties in the Portland region, ranks eleventh.74

A 2007 study prepared by Ernst and Young for the Center on State Taxation reported that Oregon and North Carolina are tied for the lowest effective business tax rates among all 50 states. The effective tax rate is the ratio of state and local business taxes to private sector gross state product (that is, the total value of a state’s annual production of
goods and services, excluding the public sector). The average effective tax rate across all states is 5.1 percent; the effective tax rate in Oregon and North Carolina is 3.9 percent. Oregon’s minimum tax on corporations, unchanged since it was reduced to $10 in 1931, is now the lowest in the nation among states that tax corporate income.

Nationally, none of Portland’s competitor regions contain tax jurisdictions with such contrasting state tax systems as Oregon and Washington. Most economists interviewed by your committee believe the close proximity of such contrasting tax systems is a competitive advantage for the region. Business owners can choose to locate in Washington to avoid the capital gains tax on the sale of their business, or in Oregon to take advantage of the lack of a sales tax. While some complain that such moves lead to tax avoidance, the money stays in the region either way.

Local Taxes
Portland businesses pay two principal taxes to the city: property taxes and the Business Income Tax.

In 2002 the Portland Development Commission hired ECONorthwest to study the competitive impact of Portland’s Business Income Tax, and total local taxes collected, both within the region as well as across competitive regions. This is the only comprehensive study of local taxes that your committee located, and though it is more than six years old, its findings are revealing. Property taxes, which impact all property owners, are significantly higher in Portland than surrounding communities. According to the study, the rate per thousand for property taxes in Portland was 3.5 percent higher than Vancouver, 10.7 percent higher than Gresham, 39.2 percent higher than Beaverton, and 42.2 percent higher than Clackamas County. This represents not only an increased cost of doing business, but also an increased cost of housing for employees who want to live in Portland.

“Property taxes, which impact all property owners, are significantly higher in Portland than surrounding communities.”

The current Business Income Tax rate is 2.2 percent for the city of Portland and 1.45 percent for Multnomah County; both are administered by the city. In the fiscal year ending June 2007, the city collected almost $76 million in Business Income Tax revenue, $22.9 million above budget and far above the $37 million collected during the last economic downturn in 2002-03. To deal with this volatility, in March 2003 the city added a surcharge of 1 percent and made it retroactive to January 1, 2002. From 2003 through 2007, the surcharge ranged from .07 to .40 percent, with the exception of 2005 when there was no surcharge imposed.

In addition, in May 2003 Multnomah County voters approved a three-year 1.25 percent personal income tax to support schools, public safety, and health services during a period of state funding shortfalls. While public education and public safety are both important to the business environment, the approval of this tax meant that the owners of “pass-through” businesses in Multnomah County had to pay both the Business Income Tax and the temporary county personal income tax on revenues from their businesses — just as the local economy was attempting to rebound.

As Oregon faces another economic downturn — possibly a recession — in 2008, Portland has not yet adequately
institutionalized a way to continue stable funding for essential services other than by imposing temporary tax increases, which could retard recovery. In January 2007 the Portland City Council adopted amendments to the Business Income Tax that:

- Raised the deduction for owners’ compensation from $60,000 to $80,000 initially, and to $125,000 within five years.
- Raised the gross revenue level below which businesses are exempt from $25,000 to $50,000.
- In 2008, would impose a revised minimum tax.\(^{81}\)

The combined effect of these changes reduced revenues collected from the Business Income Tax by approximately 5 percent. These changes to the Business Income Tax addressed some of the objections about equity and fairness that your committee heard from some witnesses. A new administrative rule adopted in November 2007 by both the city and Multnomah County also created equal treatment among all diversified investment funds, by adding venture capital firms to the pre-existing Business Income Tax exemption for diversified investment funds.\(^{82}\) Your committee believes that these steps are positive, and have somewhat improved the business environment in Portland.

Businesses located in Multnomah County pay the Business Income Tax only on income generated from sales within the county. The exemption of income from sales outside the county favors businesses in the traded sector, insofar as businesses whose income is derived from sales outside the county do not pay their proportionate share for services received from the city or county. In a sense they are receiving city and county services that are subsidized by other businesses whose sales are within the region. However, traded sector businesses drive the local economy, and assessing the Business Income Tax on them would put them at a competitive disadvantage relative to their competitors outside the city and county. Your committee supports exempting traded sector businesses from the Business Income Tax on sales made outside the county.

None of Portland’s competitor cities, inside or outside the region, has a business income tax. However, competitor cities outside Oregon collect a variety of sales taxes, and some of our region’s other local tax jurisdictions impose taxes that are not paid by Portland businesses (such as gas taxes or utility and road maintenance fees, and the city of Vancouver’s recently enacted business license fee).

Although some witnesses expressed concern that the Business Income Tax has caused businesses to leave the city (and *The Oregonian* echoed such a concern in a 2006 editorial based on anecdotal evidence not cited in the piece),\(^{83}\) your committee found limited evidence to support that concern. The 2002 ECONorthwest study points out that a large law firm, for example, could not move from Portland to Camas without reducing net sales. Eric Fruits, a senior economist involved in the study, said, “I don’t think I’d really pin people leaving (Portland) on the Business Income Tax.”\(^{84}\)

Further, in February 2007 Mayor Potter testified to your committee that in 2004 only 86 businesses moved out of Portland (less than one percent of the city’s nearly 35,000 licensed businesses), resulting in a loss of $25,000 of tax revenue (compared to 550 that
closed their doors and 350 that merged or reorganized). Commissioner Adams stated that, in contrast, between 2000 and 2004 Portland registered a net gain of 6,000 new business licenses for a 5 percent annual growth. While some on your committee speculate that the imposition of Business Income Tax surcharges and the county’s temporary income tax (along with higher property taxes) may have slowed Portland’s economic recovery and contributed to some loss of jobs in the city during this period, your committee could not verify a causal relationship.

Information from the U.S. Census Bureau indicates that taxes paid by businesses in Portland are higher than those paid in neighboring jurisdictions, more so than in many comparable urban areas. Some of these higher taxes stem from decisions made decades ago, such as establishing a pay-as-you-go disability and retirement system for fire and police officers. City Club recommended, and in 2006 voters approved, much-needed reforms that will reduce the costs of this system (while maintaining benefit levels) over the long term, but will increase the tax burden in the short term.

Your committee concludes that, on balance, the total tax burden borne by businesses in the Portland region, relative to other regions nationally, is a competitive advantage, which should be protected. For businesses located within Multnomah County, higher property taxes and business income taxes result in a cost disadvantage, when compared with surrounding cities within the region.”

Economic Development Programs

Federal, state, regional, and local governments often invest in programs to stimulate economic growth by investing in infrastructure, promoting the benefits of a certain area, or offering incentives for businesses to invest in an area. Results of these programs seem minor if viewed as a percentage of the region’s total economy, yet they have significant impact on a region’s economic growth. Siltronic Corporation, which employs about 900 people in the Portland area, is an example of a large employer that located in Portland as a direct result of the city’s economic development efforts.

Responsibility for recruiting, retaining and developing business in the city of Portland is currently shared by the Portland Development Commission, the mayor and commissioners, and private sector business groups. PDC does much of this work and is now being aided by Greenlight Greater Portland, a new, private sector, regional economic development organization. PDC relies on public and private leaders to be responsive to
requests for assistance in courting businesses considering locating in Portland.

The following section discusses economic development planning and implementation efforts for the city and region, and examines how they relate to PDC’s responsibilities for urban renewal.

**Economic Development Planning**

Between 2002 and 2007, several groups published plans to spur economic development for the city, state and region.

The table in Figure 2 lists these economic development plans and their creators.

The Oregon Business Plan, which has become the model for several other plans within the state, has motivated several state-level efforts, including innovative microtechnology and nanotechnology research, road and bridge improvements, a forest health bill, expansion of development-ready industrial lands, and a coordinated state branding campaign. The methods that led to these accomplishments include the following:

1. Private business leaders involved their government counterparts in developing the plan, which led to a sense of co-ownership during implementation.
2. The planning team focused on developing a set of specific initiatives with clear goals and ways to measure success.
3. An annual leadership summit was established to bring constituents together each year to review progress and to update the plan.

In contrast to the Oregon Business Plan’s statewide effort, the Portland region has two separate economic development plans, one created by the public sector and the other by the private sector. To qualify for a federal grant, which mandates submission of a Comprehensive Economic Development Strategy, a plan was commissioned by the Regional Partners for Business (established by thirty municipalities and six counties). In the private sector, the Regional Business Plan was published only a few months after the CEDS plan. While the Regional Business Plan acknowledges that linkages with its partners in gov-

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**Figure 2: Economic Development Plans, Scope, and Creators**

<table>
<thead>
<tr>
<th>Plan</th>
<th>Scope</th>
<th>Driving organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEDS — The Comprehensive Economic Development Strategy for the Portland-Vancouver Metropolitan Region (April 2005)</td>
<td>Regional</td>
<td>The Regional Partners for Business, a consortium of local governments</td>
</tr>
<tr>
<td>Portland Regional Business Plan (2006; updated Jan. 2007)</td>
<td>Regional</td>
<td>Initiated by the Portland Business Alliance, run by the Regional Business Plan steering committee</td>
</tr>
</tbody>
</table>

1 Mayor Katz selected representatives from business associations, non-profits, and government.
ernment and non-profit organizations are essential to implementation, most of the government witnesses who met with your committee testified that they were not adequately involved in this plan’s development.

The Portland Business Alliance, which manages the Regional Business Plan, has stated that it is improving collaboration with its partners. The CEDS plan outlines a goal of eventually combining the two plans into a single public-private regional plan that integrates with the economic development plan for the state.

“Your committee is concerned that the city does not have a team of local business leaders regularly reviewing and informing its economic development strategy. The city should also establish ongoing economic development planning that is linked with regional and state efforts and that is evaluated and updated annually.”

The city of Portland’s last economic development plan was published in 2002 after being developed by a “blue ribbon panel” assembled by former Mayor Vera Katz. The resulting plan has been used since as the working plan of the Portland Development Commission. No updates have been published, and this document does not use the framework of the state or regional plans. PDC did, in 2006, release a plan for target industry clusters, but it has a regional focus and does not specifically address the city’s economic development.

Your committee is concerned that the city does not have a team of local business leaders regularly reviewing and informing its economic development strategy. The city should also establish ongoing economic development planning that is linked with regional and state efforts and that is evaluated and updated annually.

Implementation Efforts

PDC implements programs for attracting new businesses, encourages business startups, and helps existing businesses thrive and grow, both at the city and regional levels. While cooperating with neighboring jurisdictions on the region’s economic development, it is essential that PDC not lose sight of the importance of retaining and recruiting family-wage jobs in the city of Portland. Your committee echoes one of the interviewees quoted in the regional CEDS plan, “No one wants a hollowed-out Portland.”

A new private-sector organization, Greenlight Greater Portland, was formed in 2007. It has raised over $1 million to market the region (Multnomah, Clackamas, Washington and Clark counties), retain businesses, and attract new businesses.

PDC’s business retention and recruiting teams measure results based on the processing of contacts and leads. According to a 2006 city auditor’s report, PDC set a goal in 2004 to recruit five new businesses. It actually recruited 10 out of the 30 that indicated an interest in relocating to Portland. Between mid-2004 and early 2006, PDC assisted 710 businesses that contacted PDC for support. A follow-up survey found that 15 percent of respondents were dissatisfied, while 68 percent were satisfied or very satisfied with PDC’s business services. When asked to rate PDC’s help in retaining or expanding their business,
61 percent said “important” or “very important.”

These results seem acceptable, but your committee believes other measures may also be important: (1) the number of leads that PDC generates, and (2) the percentage of leads that are converted into business sitings and investments.

While commending PDC for its interest in greater tracking and accountability (especially since PDC requested the audit), the 2006 city auditor’s report found “PDC lacks clear goals, measures and data it needs to continually improve its decision-making processes and better link its investments to community results.” The report made recommendations for improving the outcomes that PDC tracks.

Recruiting efforts also depend on the city to provide a highly attractive business environment. Therefore, feedback to the city from PDC (and Greenlight Greater Portland) is important to give city managers insight into what prospective businesses are saying about city services, features, strengths, and weaknesses. Such a feedback loop allows the city to respond and improve.

City Investment in Economic Development

In 2007, only five PDC staff members supported seven major industry clusters while also responding to requests for assistance from Portland businesses. Your committee finds this level of staffing inadequate. PDC should strengthen its efforts to support key industry clusters and expand efforts to track and communicate the economic contributions made by key sectors to the city and the region.

PDC officials told your committee that many competitive cities invest more money in economic development than Portland, but PDC did not have data to support the claim. Your committee also was unable to verify the claim.

In 2005-06 the city’s General Fund contribution to PDC for economic development, excluding urban renewal areas,* was approximately $870,000, which was only 0.4 percent of PDC’s overall budget. Your committee views the city’s June 2008 decision to contribute $2.3 million for economic development efforts as a positive sign.

The Impact of Urban Renewal on Economic Development

City Club’s 2005 study of PDC noted that its greatest contribution to economic development is through its urban renewal activities. PDC seeks to redevelop and increase the vitality of an area by using financing methods that rely on the expected increase in tax value of the redeveloped property in that area.

The city auditor’s report showed that these urban renewal efforts are indeed having a positive impact: “The Urban Renewal Areas did not see the decline in jobs experienced city-wide. In addition, wages and the market value of real estate in those areas clearly outpaced the city as a whole.” It noted that wages paid by jobs in URAs increased by 25 percent

* PDC’s major areas of operations include housing, urban renewal, and economic development.
compared to an 8 percent increase in the rest of the city and a 14 percent decline in the control areas. “Persons living in poverty decreased by 6 percent in the URAs compared to no change in the control areas and a 2 percent decline city-wide. The ratio of building-to-land increased 49 percent in the URAs versus 2 percent in the control areas.”

In summary, your committee believes that the city of Portland should cooperate with businesses to create an economic development plan for the city that takes into consideration the economic development plans for the state and the region. It is imperative that such an economic development plan also be assessed and updated annually.

Public Safety

Owners of downtown businesses told your committee that their customers are concerned about crime levels in the downtown area. Downtown businesses have voted to establish (and to fund through extra taxes) a Local Improvement District, in part to provide extra security patrols. Some business owners told your committee that they moved from downtown locations to suburban communities in part because of their concern for the safety of their customers and employees. Such concerns caused your committee to look at public safety issues as a component of the business environment.

Statistics do not show a significant difference in crime rates between Portland and other competitive urban regions. According to the annual reports of the

Federal Bureau of Investigation, Portland ranks higher than some competitor cities in certain kinds of crimes, and below those same cities in other kinds of crimes. Such rankings can be misleading, but in any event, your committee found no evidence that crime rates have any material influence on decisions by businesses to locate in the Portland metropolitan area rather than in some other city.

According to data from the Portland Police Bureau, the incidence of crime in downtown Portland has decreased in recent years. The number of crimes against persons in Portland’s central precinct, which includes downtown and the Pearl District, declined by 36 percent between 2000 and 2005. The number of property crimes increased in the years immediately following 2001, perhaps as a result of a change in policy regarding the manner in which incidents of theft were compiled, but even with that change, property crimes in the central precinct decreased by 7 percent from 2000 to 2005. A city auditor’s report indicates that the crime rate has reached a new low and residents generally feel safer in their neighborhoods.

National statistics released in June 2007 confirmed a continuing drop in crime in Portland as a whole, but indicate a new and disturbing trend: while murder and arson continue to drop, robberies rose 14 percent from 2005 to 2006, and street robberies jumped 25 percent in the same period.

Indeed, crime in the downtown area remains a concern to many Portland residents. Citizens surveyed in 2007 for the city auditor’s annual report felt

* The auditor selected three separate “control areas” with land use patterns similar to the URAs that did not receive major government investment during the comparison period, as indicated in the auditor’s report; Portland City Auditor, “Portland Development Commission: Economic development efforts effective, but improvements needed to measure and manage future success,” June 2006, p. 6, map on p. 13.

** The FBI itself warns that its rankings “lead to simplistic and/or incomplete analyses that often create misleading perceptions adversely affecting cities and counties, along with their residents;” http://www.fbi.gov/ucr/05cius/about/variables_affecting_crime.html.
far less safe walking alone in downtown Portland at night (27 percent) than during the day (68 percent), although they generally felt slightly safer in 2007 than they did two years earlier.\textsuperscript{101}

The incidence of crime is not the only factor that contributes to public safety concerns on the part of business owners and the public at large. Panhandling and other unsavory activities often associated with homelessness — rightly or wrongly — are often cited as factors that may lead businesses to move away from the downtown area.

The city has made several important improvements with respect to the quality of life in downtown Portland. In December 2006, business owners, civil rights lawyers, homeless advocates, and the police bureau agreed on a plan to reduce the number of homeless people on downtown streets. The plan, labeled “Street Access for Everyone” (SAFE), proposed a day center for homeless people, additional street benches, and additional public restrooms in the downtown area.\textsuperscript{102} In addition, as Mayor Potter noted in his State of the City address in January 2007, the city’s new sidewalk obstruction ordinance, adopted in late 2006, “will keep our business areas welcoming to all by prohibiting anyone from sitting or lying on a public sidewalk in downtown Portland or the Lloyd District between 7 a.m. and 9 p.m.”\textsuperscript{103}

Your committee supports this policy but has concerns about its implementation and enforcement. To be successful it will require full funding and close monitoring of its effectiveness. The city auditor should publish data illustrating the policy’s effect on the incidence of crime and homelessness on downtown streets.

**Urban Construction Costs**

Some witnesses complained that constructing or remodeling a business facility in Portland typically costs 20 percent more and takes longer to build than an identical project in suburban areas such as Beaverton or Hillsboro. It was implied that unreasonable and costly regulations placed by the city of Portland on projects within the city constitute the major reasons for these differentials.

Your committee contacted two local architects and a cost estimator to determine whether such a cost differential exists and, if so, what factors contribute to the differential. These experts confirmed that projects in the city often, though not always, cost more and take more time to build, for the following reasons:

- Land costs usually are higher in urban areas than in suburban locations.
- Density in urban areas often results in less available staging area for construction projects, raising costs for materials and equipment storage, and increasing the frequency of moving materials, which must be done in smaller loads.
- Office space must be rented in adjacent buildings.
- More traffic on streets and sidewalks place more restrictions on closures, raising costs of working around the pedestrian and vehicular traffic.
- Buildings in suburban areas are built out; in urban areas they are built up. Multi-story buildings are more costly. In particular, buildings
taller than 75 feet are required to have more extensive and expensive fire and life-safety systems.

- Even when buildings in urban areas are not higher, they are more often built adjacent to other buildings, which can raise construction costs due to fire protection requirements for perimeter walls. Suburban buildings can be spaced farther apart, eliminating the need for these costs.

- Buildings constructed in urban settings are often designed for longer life, requiring higher costs for materials and construction.

In some cases additional costs occur in suburban locations due to provision of utilities, construction of roads, and other factors less often required in urban settings. During the course of this study, concerns about permitting grew in some outlying communities. The Oregonian columnist Jerry Boone noted, “some disgruntled developers contend Beaverton paves its permit process with speed bumps and potholes. They say a project that might take six months in Hillsboro can take two or three times that in Beaverton — all as the inflation meter continues to run.”

On balance, the experts interviewed by your committee stated that there is too much variation from project to project that cannot be attributed to urban vs. suburban regulatory requirements.

**Measuring Progress**

Measuring and tracking progress on the entire range of factors that affect Portland’s business environment is important. In 2005 Commissioner Adams began work on a project that is still in process — an “economic dashboard” designed to provide measurements of Portland’s economic health. Your committee encourages further work on that front to help measure progress and identify where attention is needed.

Each year the city auditor issues a report on the performance of city government. In December 2007 the city auditor issued the seventeenth such report, which summarized the city’s progress in accomplishing its major goals: (1) ensuring a safe and peaceful community; (2) operating and maintaining an effective and safe transportation system; (3) improving the quality of life in neighborhoods; (4) protecting and enhancing the natural and built environment; (5) promoting economic vitality and opportunity; and (6) delivering efficient, effective, and accountable municipal services.

Portland has established a host of benchmarks that relate to the local economy, environment, health and families, urban vitality, education, governance, civic participation, and public safety. The city auditor’s office has responsibility for tracking and reporting outcomes for these benchmarks. Unfortunately, 19 of the benchmarks remain unmeasured “because data are inconsistent, unreliable or unavailable at the county level; or the benchmark requires further research to determine the most appropriate data to track and report.”

Some of the untracked benchmarks with key relevance to the business environment include: total taxation, per capita dollars spent for local government services, timeliness of government permit issuance, small business failure rate, job training, export activity, industrial land availability, and job growth in downtown Portland.
Your committee found it difficult, and in some cases impossible, to assess city performance on economic factors because data were not available nor reasonably easy to access. For example, in late 2007, PDC was just beginning to look at what competitor cities spend on economic development, but no data are as yet available. Such data is an example of information important for justifying an appropriate level of spending for Portland’s program. Similarly, your committee was unable to obtain data on how many for-profit jobs have come and gone in the city, or data on jobs in the city by neighborhood, industry, pay scale, or education requirements.

Measurement is clearly important to identify shortfalls, gauge improvement, and rectify false perceptions, which your committee often uncovered when comparing testimony to factual evidence. While the city auditor provides a level of analysis not found in most other cities, it is nevertheless imperative that the city auditor be provided the resources to better track data assessing the condition of the city’s business environment.
Conclusions and Recommendations

CONCLUSIONS: THE CONDITION OF PORTLAND’S BUSINESS ENVIRONMENT

Your committee found many dimensions to Portland’s business environment and little agreement among businesses on how they should be prioritized. This lack of consensus makes it impossible to assign a meaningful quantitative grade to Portland’s business environment or to quantitatively compare it with the business environments of other cities. And even if everyone agreed on a universal set of factors, we could not rate some of them because reliable data is often not available at the city level.

“[Y]our committee believes that compared with competitor cities in the United States, the local business environment is relatively good and has improved over the course of this study.... Yet your committee sees warning signs, and some of them are serious.”

— deserves much credit, but the business environment also has benefited from efforts by city officials to improve it, and because business leaders have pursued a more collaborative approach to resolving issues with city government.

Portland’s Business Income Tax has been modified by city ordinance, addressing an issue that was particularly problematic to many businesses. Permitting processes have been improved and attitudes are being tracked to ensure that “customers” are finding these processes less burdensome. A private-sector, regional economic development organization has been formed, and new steps are being taken to address some of the impacts of loitering and homelessness on business.

Yet your committee sees warning signs, and some of them are serious. Portland’s quality of life provides an important competitive advantage. At one time, available and affordable family housing, short commute times, and good public schools were among the city’s greatest assets. Over the past decade these aspects of Portland’s generally high quality of life have been challenged. A rapid rise in housing prices,
increased traffic congestion, and unstable school funding have put at risk some of the attributes that have drawn people and businesses to our region. It is essential that business and government leaders and others recognize the importance of quality-of-life factors to the business environment, before the problems undermine Portland’s competitive advantage.

Although Portland’s ability to attract young, highly educated workers is a competitive advantage compared to other regions, there is a shortage of local workers with training in a number of key industries, including manufacturing, construction, and health care. And Portland risks losing its younger talent pool as they mature, if affordable family-friendly housing and high-quality public schools are not in adequate supply.

Businesses in the city of Portland and Multnomah County pay higher property and business income taxes than businesses in other jurisdictions within the region, which places them at a competitive disadvantage.

Information important to identifying problems and setting priorities must be gathered and tracked, and further improvement is needed in coordinating economic development planning and programs at city, regional, and state levels.

Many of the problems that should be addressed are out of the hands of local decision makers and will require cooperation among stakeholders throughout the region. Some transportation problems can be addressed by better organizing regional activities, but a great deal of the effort to resolve major transportation issues will require a better structure for making decisions and funding levels that are sufficient to deal with Portland’s traffic congestion and maintenance shortfalls.

The quality of public education is a prime concern for businesses considering locating in Portland and workers considering relocating to jobs in the area. The legislature must stabilize education funding overall and invest more in higher education.

Other problems stem from the region’s growth and success. For instance, the economic vitality of the region has also contributed to traffic congestion, and an increasingly severe shortage of developable land within city limits negatively affects both industrial development and housing costs.

Your committee believes that local government and business leaders can best serve city businesses not with divisive rhetoric, but by forging partnerships and finding common solutions to the city’s and the region’s serious problems, working with state and federal decision makers, and leading the public through the difficult decisions that must be made and the implementation steps that will be required.
RECOMMENDATIONS

While your committee believes there is room for incremental improvements with regard to each aspect of Portland’s business environment, we believe that the following recommendations will have the greatest potential impact:

Relations between City Government and the Business Community
1. City officials and business leaders should recognize that a cooperative working relationship is the single greatest factor in the city’s business environment. Specifically:
   a. City officials should make frequent site visits to businesses and meet often with business leaders.
   b. Business leaders and city officials should be more judicious in using the power of the media to leverage decisions in their favor.

Economic Development Programs
2. The city of Portland should join with businesses to create an economic development plan that takes into consideration the economic development plans for the state and the region, and that is evaluated and updated annually.

Workforce
3. City Council, the Portland Development Commission, and Metro should continue to support the development of affordable housing, with a greater emphasis (including incentives for builders and developers) on building more family-friendly housing that medium- and low-income workers can afford.
4. A taskforce of business and education leaders should be formed to propose training programs to ensure that Portland’s workforce skills better match industry needs, to raise awareness among students and workers about career and training opportunities, and to monitor progress in meeting labor force needs.

Public Education
5. The Oregon Legislature should fund primary and secondary education in a consistent, sustainable manner and at the level recommended by the Quality Education Model.
6. The Oregon Legislature should increase levels of funding for public higher education to at least match per student funding in Washington and California, our two west coast competitors, so that:
   a. Course offerings support completion of a degree at a community college in two years and at a university in four years.
   b. Faculty salaries are competitive with public colleges and universities in Washington and California.
   c. Tuition at public universities and community colleges in Oregon is comparable to tuition in Washington and California.
7. Portland State University and Oregon Health and Science University should continue to develop strong research centers for the region, and both the public and private sectors should support this effort. The Oregon Legislature should increase investment and should enact further measures to support transforming innovations from university laboratories into profitable business enterprises.
Transportation

8. Metro, in working with the states of Oregon and Washington to create the 2035 Regional Transportation Plan, should assure that the plan does the following:
   a. Considers overall needs when prioritizing projects.
   b. Identifies funding sources and considers strategies for building public support for public funding.
   c. Identifies how best to maintain and improve bridges throughout the region.

9. City Club should initiate a comprehensive study to determine the best administrative structure and oversight authority for regional transportation planning and implementation.

Taxation

10. So long as business tax rates in the city of Portland and Multnomah County significantly exceed those paid in other jurisdictions in the region, Portland and Multnomah County should only undertake new local government spending initiatives with exceptional justification.

11. Because revenue from business income taxes is volatile, the city of Portland and Multnomah County should establish rainy day funds that are sufficient to avoid tax increases, surcharges, and fees during economic downturns.

Measuring Progress

12. The city auditor’s office should be provided with the resources that would make possible tracking the entire range of metrics that assess the condition of the city’s business environment, including information on economic development spending of competitor cities.

Respectfully submitted,

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Citations

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21. ORS 329.035(3); ORS 329.035(4)(a); “Writing a New Chapter,” p. 23; and Or. Const., Art. VIII, § 8(1).
48. Ibid.
51. Ibid.
64. Ibid.
86. U.S. Census Bureau, “Employment, Payrolls, Average Earnings in Individual Municipal and Township Government Having 25,000 or More Population by State: March 2002.”
92. Ibid.
93. Ibid.

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98. Ibid.


106. Ibid.
Witnesses

Sam Adams, Commissioner, City of Portland
Susan Anderson, Director, City of Portland Office of Sustainable Development
Rebecca Armstrong, Managing Director, Johnson Cowhan Hanrahan Advertising
David Atiyeh, President, Atiyeh Brothers
Gary Blackmer, Auditor, City of Portland
David Bragdon, President, Metro Council
Steve Buckstein, Senior Policy Analyst, Cascade Policy Institute
Tim Boyle, President & CEO, Columbia Sportswear
Matt Chapman, founder, CFI Software
David Chen, Partner, OVP Venture Partners
Bonnie Choruby, Senior VP of Merchandising, Lucy Activewear Inc.
Jay Coalson, Principal, Green Building Services
Joe Cortright, Consulting Economist, Impresa Consulting
Pat Donaldson, President, Forbes & Associates; President, Alliance of Portland Neighborhood Business Associations
Norm Eder, Executive Director, Manufacturing 21 Coalition
Wayne Embree, Managing Partner, Cascadia Ventures
Paul Ehrlich, VP of Business Affairs, Adidas
Jim Francesconi, former Commissioner, City of Portland; Acting Executive Director of Construction Apprenticeship and Workforce Solutions (CAWS) Initiative
Kevin Jeans Gail, Director, Portland Workforce Alliance
Scott Gibson, Vice Chairman, OHSU Board of Directors; co-founder, Sequent
Tim Greve, President, Carl Greve Jewelers
Tim Grewe, Chief Administrative Officer, City of Portland
Lisa Grove, Principal, Grove Insight
Doug Henne, Partner, Isler & Company; President, Oregon Society of CPAs
Tim Hibbitts, Partner, Davis, Hibbitts & Midghall
Gordon Hoffman, Managing Director, NW Technology Ventures
Steve Holwerda, COO, Ferguson Wellman Capital Management
Bill Hostetler, Commercialization Officer, Portland State University
Jim Johnson, CEO, Tripwire
Gil Kelley, Director, City of Portland Bureau of Planning
Jill Powers Kirk, President, Portland Schools Foundation; Vice President, Oregon Business Council
Randy Leonard, Commissioner, City of Portland
Rochelle Lessner, Policy and Public Affairs, Portland Development Commission
Carl Marker, President, IMS Capital Management
Sheila Martin, Director, Institute of Portland Metropolitan Studies, Portland State University
Rob Mawson, Vice President, Heritage Consulting Group; Senior Program Manager, Alliance of Portland Business Associations
Bob McCarthy, COO, Tripwire
Sandra McDonough, President and CEO, Portland Business Alliance
Andrew McGough, Executive Director, Worksystems, Inc.
Brock Metcalf, Managing Partner, Cascadia Ventures
Jennifer Nolfi, Small Business Advocate, Portland Development Commission
John Noordwijk, CEO, Sapa
Steve Olczak, Director of Secondary Education, Portland Public Schools
Bob Packard, Managing Partner, Zimmer Gunsul Frasca Architects
Bobbie Parisi, Vice President of Marketing, Keen Footwear
Roger Pollock, CONTECH Stormwater Solutions
Nan Poppe, President, Extended Learning Campus of Portland Community College
Tom Potter, Mayor, City of Portland
Steve Pratt, Chairman and CEO, ESCO Corporation
Mike Riley, Research Director, Riley Research
Michael Roach, Owner, Paloma Clothing; President, Hillsdale Business Association
John Russell, President, Russell Development
Patricia Ryan, Senior Manager of Economic Development (Industry Clusters Specialist), Portland Development Commission
Dan Saltzman, Commissioner, City of Portland
Joe Schneid, CPA, Aldrich Kilbridge & Tatone LLC
Chuck Sheketoff, Executive Director, Oregon Center for Public Policy
Bert Sperling, President, Sperling’s Best Places
Lynn Spruill, COO, Arnerich Massena
Erik Sten, Commissioner, City of Portland
John Tapogna, Senior Policy Analyst, ECONorthwest
David Thorpe, Creative Director, Ziba Design
Chris Van Dyke, President, Nau, Inc.
Thom Walters, Partner, Coraggio Group
Bruce Warner, Executive Director, Portland Development Commission
Duncan Wyse, Executive Director, Oregon Business Council

Witness Panels

Activewear and Gear—Choruby, Ehrlich, Parisi, Van Dyke
Business Organizations—Wyse, McDonough
Creative Services—Armstrong, Packard, Thorpe, Walters
High Tech/Life Science—Chapman, Embree, Johnson, McCarthy, Metcalf
Metals—Eder, Noordwijk, Pratt
Market Research—Grove, Hibbits, Riley
Professional Services—Henne, Holwerda, Marker, Spruill
Retail Businesses—Atiyeh, Donaldson, Greve, Mawson, Roach
Sustainable/Green Industries—Anderson, Coalson, Pollock
Taxation—Buckstein, Schneid, Sheketoff, Topagna
Venture Capital and Technology Transfer—Chen, Gibson, Hoffman, Hostetler
Workforce Training—Francesconi, Gail, Kirk, McGough, Olczak, Poppe
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“Soften the blow for small businesses.” *The Oregonian*, Dec. 8, 2006.


**City Club Reports and Friday Forums**


