The Public's Business

By Lisa Baker

Some have called it a time of reckoning for the private sector as once-mighty industries watch their hottest investments become frigid in the dank economy.

As a result, many businesses, rather than chasing the next new thing, are reforming their playboy ways, devoting themselves to more careful courting.

But their very reticence seems somehow to have steamed the shorts of the Northwest's public sector, which despite punishing economic indicators–or possibly because of them–seems to be throwing a coming out party. Now, government is where ventures are launched and government is where the action is.

Consider this shortlist of recent public enterprise: the city of Portland is considering buying Portland General Electric and is at the same time pursuing professional baseball--financing plans for both projects is unknown. Clackamas County in October teed off on a $7 million golf business, paid for by the sale of bonds. The city of Vancouver is building a hotel with a combination of sales and hotel-motel room tax revenue. And, the city of Ashland has pioneered its own telecommunications company on a $5.8 million bank loan.

Local government is in business like never before, seemingly heeding the advice of economists and business boosters alike who advised that government should "act more like a business."

If so, why are the same economists and business boosters more frustrated than ever?

Lost in the Translation

Econo-speak.

"That's not what we meant," says Greg Peden, lobbyist for the Portland Business Alliance. He admits that he and his ilk did say, "Act more like a business" but what they intended was sort of what your mother would say when you dragged your shirtsleeve through the gravy: "Sit up straight, watch what you're doing and tuck your shirttail in."

It was not a call to go forth and conquer.

"When people said they wanted government to act like business, they meant to act efficiently, to be more aware of the bottom line," Peden says. "We were not saying we wanted them to get into private business."

Randall Pozdena, economist with Portland-based EcoNorthwest, agrees. "Why should they do that? We have plenty of businesses."

He has a one-word answer to why governments should stay out of the business world: Pamcorp.

It was the hot new thing in the early 1990s that was supposed to make a mountain of cash for the Oregon Public Employees Retirement Fund. The proposal was simple: $50 million in bonds would fund a start-up aircraft repair concern at the Portland International Airport. Returns from the investment would pay the $400,000 in monthly debt service and then the profits–predicted to be some $145 million--would fatten the fund. The Oregon State Treasury, manager of the fund, guaranteed repayment of the bond.

In the summer of 1993, the business opened and repaired precisely two aircraft before collapsing under higher-than-expected costs and less-than-expected interest from paying customers, according to accounts in *The Oregonian*. Despite help from the Port of Portland, which agreed to waive $1.6 million in land lease payments, and a $1 million bailout from the Oregon Investment Council, Pamcorp never resurfaced. Months later, then-Attorney General Ted Kulongoski filed suit against the company's top executives, claiming that the three had "milked the corporation of its assets."

Pamcorp remains on PDX grounds, renting out its hangar for aircraft parking, but it's making chump change, Pozdena says. "It's a white elephant."

The lesson, he says, is that a failed investment, however good it looked in the beginning, exposes the public to losses that must be paid back.

It's a pain the people of Ashland will soon feel in the aftermath of the city's attempt at the telecommunications business. In 2001, the city went live with its own cable television/high speed internet service, offering low-cost hook-ups to its residents.

Two years later, the business is swimming in debt, owing in part to too-low estimates on fiber construction costs and, like Pamcorp, fewer than expected customers. The city expects to surpass $14 million in losses by the end of the fiscal year.

Lee Tuneberg, Ashland's finance manager, is quick to tell you: This is not his fault.

Hired after Ashland Fiber Network launched, Tuneberg finds himself with a mandate to make the venture pay off when he wasn't in on its formation in the first place. "People thought this was going to be a boon."

It doesn't help that the city is not the only act in town. A private provider, Charter Communications, was already offering service in Ashland before the city went forward with its business plan. Why did the city go forward? "I think people are asking themselves that very question now in hindsight," Tuneberg said. "But at the time, it was about creating alternatives for our residents."

The bank loan on the project was secured by the city's electricity fund, which means electricity rate hikes will likely be levied to cover the city's business losses, Tuneberg says. Property tax increases are also under consideration.

Why not simply raise cable rates? "We don't want to affect our competitiveness by raising rates," he says. Instead, the city will look at "expanding product offerings" to entice customers who don't yet have cable or to "steal customers" away from Charter, he says. Why not sell? "We're not considering that at this point. Beneficial things go with having Ashland Fiber Network," Tuneberg says. Chief among those is cheap cable service. "I have the expanded basic service," he says. "60 or 70 channels…and my bill is $30.60 a month. And then I get high speed Internet for $31 per month. I know people elsewhere who pay upwards of $100 for these."

The size of rate and/or tax bill increases is unknown at this point, he says.

It's not the only city facing financial reverses from its outings into the business world.

The City of Portland is losing hundreds of thousands of dollars each year on the $40 million renovation of Civic Stadium, now PGE Park, money that was intended to be paid back once the park was operating and selling seats and boxes. But expenses soared well beyond projections and luxury boxes sold for less than expected. The project has been bleeding cash since its opening.

But officials still hold out hope that the facility will prove itself a moneymaker, and that the stadium's successful Women's World Cup soccer championship in October was just a taste of what's to come. In the meantime, the city is discussing tax increment financing, among other ideas, to raise money to fund a stadium for a major league baseball team.

Pozdena says it's not surprising that local government-backed projects have so far failed to be a smashing success. He says government takes on business plans that private investors won't touch because they're too risky or just plain infeasible. "Look at Pamcorp. This project was shopped by promoters to everyone–banks and investors--everybody turned up their noses at it."

Moreover, Pozdena says, government agencies are less thorough in investigating the loss-benefit picture because "it's not their money anyway…If there were money in it, developers would be stepping up begging you to let them do it."

Fore!

It's hard to be realistic about anything on a golf course.

The dead-even cut of the grass, graceful bending of trees, the ripple your Titleist makes as it drops short and low into the water hazard for the third time. Ah, golf.

In the 90s, golf took off like a line drive, adding fairway after fairway as golf fans competed for tee times and compared drivers and Tiger Woods sightings. From 1986 to 1990, there weren't enough putting greens to satisfy golf-crazed hordes. And so, between 1991 and 1999, course developers got to work, unfurling green carpet over every picturesque knoll they could find.

Oregon was part of the boom, adding, among others, two courses at The Reserve in Aloha, two at Pumpkin Ridge in North Plains, one at Stone Creek near Oregon City, and one at Langdon Farms in Aurora.

And then the economy slowed. Stopped, even. Executives, if they still had jobs, no longer had expense accounts with which to entertain clients at local courses. Families cut household budgets, deciding to keep Dish Network, dump golf. Not enough new players have taken up where departing players left off, leaving an inflated number of courses to fight over what is left of the market, according to course owners and managers.

The fairways have cleared.

The National Golf Foundation has declared that golf, once thought to be somewhat recession-proof, is in a slump.

But that fact has not cooled local governments' desire to invest in it, and not just to settle for the love of the traditional par-3 muni course, which has been a popular government fare for decades.

Clackamas County acquired Stone Creek Golf Club in October, a designer, regulation course that in its first year of operation earned more than consultants predicted while charging more than most government-owned courses per round. Stone Creek General Manager Gordon Tolbert says that once the novelty wears off, the number of customers will drop somewhat and level off. Even so, he believes the course will do well because of its comparatively ungolfed east side location:

Now the west side, he says, that's where the crowd of courses is.

But that fact has not cooled the City of Sherwood's desire to play through. Armed with a consultant's glowing feasibility report, council members say they're confident their short course, likely to be funded with bonds, will succeed despite generally acknowledged saturation of the field, and two other short courses nearby.

Ross Schultz, Sherwood city manager, says the concept comes recommended by respected golf consultants at Pumpkin Ridge Associates who came, well, recommended.

Brainstorm NW discovered that Pumpkin Ridge Associates is indeed well-regarded in course design and construction. However, Oregon golf officials say they are unknown in the business of feasibility.

Greg Crawford, a principal with the 2-year-old company, says the Associates have performed two or three feasibility studies, aside from Sherwood's, but that they prefer design work. "Feasibility studies are not our favorite thing to do," he says. At the same time, Crawford said the firm would "absolutely" like to design Sherwood's course, should the city proceed. While the Associates report gave figures and estimates showing future profitability, Crawford said it did not actually recommend building the course. "We try to steer clear of recommendations."

Stone Creek's Tolbert said Sherwood's course "might be doable" if it included the right amenities–clubhouse, restaurant, driving range–and if it was maintained and managed by experts in the field. He said he does believe that there can be too much golf for the sport's own good. "Eventually, you can kill the golden goose," he says.

Told that the course is not slated for a restaurant and that the Sherwood Family YMCA is being tapped to manage it, Tolbert said: "Well, they're being optimistic."

But failure would not be the worse thing that could happen to Sherwood's venture, some say. Against the odds, it could succeed.

And that's what bothers Chris Maletis, owner of Langdon Farms, an 18-hole course about 15 minutes from Sherwood. He says the city's course will likely take precious rounds from his business and others, most of which are suffering from declining rounds in the past two years. Ditto plans for a Newberg-area course being pushed by the Chehalem Park and Recreation District.

Todd Rohrer, marketing director for Langdon, puts it this way: "We're keeping our head above the water, but these are tough times."

It's especially galling that the competition is coming from subsidized courses that will pay no property taxes on their land, he says. "We don't need government to help us, necessarily, but we'd prefer government not make it harder for us."

Sherwood Mayor Mark Cottle is unsympathetic. "Well, you know, life's hard," he says. "Yeah, we're subsidizing to the tune of about $2 million. So what? If you can't stand the competition, you should do something else."

Cottle says he believes the city's rapid population growth will ensure plenty of players for the new course and that the recession-caused slowdown will end soon. "Everything's down big time. Let's face it, the economy sucks. Now, you can wait for a good time and then (build the course) or we can assume the historical trend will hold true and the U.S. will come out of bad economic times."

It's not the only sports enterprise Sherwood is attempting. There's also soccer: The city has announced plans to build an indoor soccer arena just three miles from a new, privately owned arena whose owners had carefully selected their site to be in an underserved area, well away from Beaverton and Clackamas indoor facilities.

Dave Heironimus, Sherwood city councilman, says he heard about the Tualatin arena, but is unconcerned about competition. “My only concern is for our facility. If it takes business away from theirs, I’m sorry for that, but my job is to look out for the best interest of the city of Sherwood.”

He was similarly nonchalant about the potential for Sherwood’s golf course to shove private golf out of business. “If it’s for the public good that we’re doing this, then I don’t care about private enterprise. It’s not our job to make a for-profit enterprise work…Besides, Langdon Farms isn’t local anyway. It doesn’t provide anything for Sherwood.” Heironimus said that if Langdon Farms goes out of business, “they can all work at our course.”

The Inn Crowd

The newest player in the hospitality business would like you to know: They’ll leave the light on for you.

The City of Vancouver, with hoped-for cash help from Clark County, is preparing to try its hand at the hotel business, hoping receipts from the 225-room hotel venture will help pay for an accompanying conference center. Hilton Hotels have tentatively agreed to act as manager for the $71 million project, which will be financed largely with proceeds from the city’s hotel-motel room tax.

Stephen Burdick, economic development manager for Vancouver, said the plan makes sense because no one is interested in simply building a convention center because such facilities traditionally lose money. He says he believes this one, with the hotel attached, will make the city $1.5 million per year in continuing revenues–revenues that are currently heading across the river to Portland because of lack of conference space in Vancouver. And there’s the added attraction of a long-term revenue source that isn’t dependent on taxpayer good will.

But Washington’s Hotel and Lodging Association is incensed over the deal.

Jan Simon, executive vice president of the association, says the city’s hotel will drain the market advantage out of having a convention center in the first place. “A convention center in its purest sense drives room nights,” she says. In this proposal, the city absorbs all of the benefits and keeps them to itself. In addition, it will take customers away from existing inns.

Worse, she says, the city is using the industry’s own tax–one that’s expected to be used to promote the lodging industry--to compete against it. Given that the city’s hotel will not have to pay local taxes while the others will, “It will not be a level playing field,” she says.

Good for the Goose…

Public sector officials say it's silly to suggest that government shouldn't have the same opportunity to make money as any other business. And during economic stress times, government projects can pave the way for new investment and thereby put the private sector back in business, they say. So, a new conference center brings travelers to a city who also shop in the downtown and patronize local restaurants.

But primarily, they point out that every dollar government makes in investments potentially lightens the load on taxpayers.

Take Portland Public Schools. The district is planning to rebuild Whitaker Middle School, which was shut down last year after it was found to be infected with both mold and radon. The district has little cash for construction but if it allows a portion of the 13-acre school property in northeast Portland to be developed for housing or retail, it could use the profits to leverage construction of the new school.

So far, a mix of commercial development and housing is being explored. While district officials don't fancy themselves in the development business, they say there is advantage in maintaining ownership of the commercial portions to create a revenue stream over the long term rather than settle for a lump sum.

Marc Abrams, former member of the school board, pushed the concept of the district using private enterprise to buy new school construction but said there was significant resistance from the community for what he believes is prudent fiscal policy.

"There is political pressure that is contrary to acting like a business," he says. "People who want us to keep the land for green space so they can walk their dogs, for instance."

But Abrams believes it is the district's job–especially in times of financial crisis–to wisely invest district resources in ways that bring more private money into the coffers to be used for the public good. Failing to take advantage of opportunities makes the burden on the taxpayer all the more ominous–school buildings aren't cheap.

Others say the tough economy has made the public resistant to more taxes, yet unwilling to let go of the services and amenities government offers. And so, the mandate is to be creative in finding projects that offer both amenities and cash return.

Sometimes, a significant cash return is unnecessary as long as the service is provided without an actual sucking sound emanating from a city's bank account, public officials say.

Such is the parking scene in Eugene. There, the city of Eugene and Lane County have a lock on the parking business. Between the two, nearly every parking garage and surface lot is publicly owned.

Despite the near-monopoly, however, public officials say they don't see much profit–just enough to pay for maintenance and debt service on the properties. "We are self-supporting," says George Jessie, who manages parking services for Eugene. "It doesn't cost the city anything and there is, arguably, some profit–more like a dividend to the general fund."

He says the city has mulled turning the parking business over to the private sector, but because the cost of doing business is higher for the private businesses, it's unlikely to be profitable. In the end, Jessie says, he sees it as a support to businesses downtown that otherwise would end up having to provide parking to their customers at an added cost.

Opportunity Costs

Peden, of Portland Business Alliance, says government is losing its grip on the big picture. "Look at it this way: Say you have a city enterprise fund that's self-sustaining, there's (no loss) of taxpayer dollars, so it's a wash. It is not good or bad for taxpayers. Compare that to a private business that would pay taxes on its profits. That is good for our economy, without robbing Peter to pay Paul."

He says government could whip up its revenues simply by letting private industry do what it does best "rather than trying to compete with it."

Pozdena is more blunt about the prospects of government in business: "Government can't do what it's supposed to do, let alone run businesses like these. Most of them are fiscal disasters…because most people who go into government are those who already failed at the private sector."