

TITLE: Where's the Wealth?

*Will Wealth Migration from Portland to Vancouver Turn Allies into Rivals?*

By Bridget Lynch

It is called the Portland-Vancouver Metropolitan Area and it seems to make perfect sense for two cities so geographically close to be economically linked together.

Or does it?

The word out of Washington is sunshine and smooth sailing—the population is increasing, jobs are growing and the economic outlook is good. A little further south, Portland's message isn't quite so positive. Job growth has slowed and the Oregon economy remains weak. But local media stories about the metropolitan area sometimes blend the Portland-Vancouver messages together painting a skewed portrait of each city.

Though the distance between Portland and Vancouver is a mere seven miles, the two cities are very different. At the most basic level, what divides these cities—the Columbia River—is also the state line. Portland and Vancouver are in separate states—meaning they have different leaders, different constitutions and different laws.

These differences are inducing some Portlanders to find greener pastures on the Washington side of the Columbia River. Washington's more favorable tax laws are most often cited as a major motivator for Portland's economic elite who have decided to make the seven-mile move northward.

Washington residents do not pay a state income tax and owners of closely held S-corporations who sell their company or cash out shareholders have a further advantage. In Oregon, the profits from the sale of an S-corporation are taxable because they are considered capital gains and fall under the state income tax. In Washington, the profits would not be taxed.

"If you are going to sell your business you will save money in Vancouver," says Ralph Shaw, president of the Shaw Management Company. "It's an onerous tax in Oregon, even if it only happens one time in the life of a business. Over the past 30 years, a meaningful number of people have moved to Vancouver for two years, sold their business. Some of them moved back to Portland, if they wanted to. They escaped paying those taxes. A number of people decided to stay in Vancouver and that depletes the most important community leaders."

The impact that the departure of high net-worth individuals, and sometimes their companies, has on Portland is complex. Not only is Oregon's tax base diminished, its civic leaders may turn their attention to other Washington projects, and Oregon cultural and charitable works lose support.

The migration over the river has been consistent for at least the past 10 years but has accelerated over the past few years, says John McKibbin, president and CEO of the

Greater Vancouver Chamber of Commerce. Magnet issues include the tax advantage, the more attentive government structure, and the Vancouver school system, he says.

“We still have that small community sense,” McKibbin says. “We welcome and integrate new people. With so many very successful business leaders coming this way we want to integrate them into our system and provide opportunities for them to become a part of our community.”

In 2004, just over 7,000 Oregonians turned their drivers licenses in to Clark County’s Department of Motor Vehicles offices. Just over 6,000 did the same in 2003, and just over 5,500 turned theirs in during 2002.

Vancouver’s business friendly environment and pro-growth attitude have made it one of the fastest-growing cities in Washington, says Gerald Baugh, Vancouver’s manager of business development.

The Vancouver population has grown to about 250,000 people, while Portland counts 550,560 people. The Portland-Vancouver Metropolitan Area has about 1.5 million people.

“By moving here, it is a validation that our leadership is working,” McKibbin says. “Clark County is the fastest growing county in the state of Washington. Over the past 40 years we’ve experienced a three percent growth rate and over the past ten years that has increased to four percent.”

The primary factor that led writer Gerry Pratt to move to Vancouver was the city’s livability.

“I would have moved here regardless of the tax structure,” Pratt says. “But it is a great motivator for people with large capital gains and it makes sense. It was the small town synergy and the community aspects that are hard to find in a large city that drew me here. Vancouver isn’t an elitist town; there are no social strata. That kind of structure comes with time—old families and old money. There are wealthy people here but it hasn’t developed into the social structure of a mature city.”

When Elie Kassab moved to Vancouver from Portland over 15 years ago, the tax structure and the school system were key factors in his decision.

“It was not a difficult choice at all,” says Kassab who is president of Prestige Development Co. of Vancouver. “When you look at everything that has happened in Portland since, there is no question. Now the Multnomah County tax is driving people to Vancouver too.”

“People aren’t just being pushed out of Portland,” says Steve Burdick, manager of Vancouver’s Economic Development Services division. “They are being pulled to Vancouver too.”

In 2004, 18 businesses announced that they would be relocating to Clark County, says Bart Phillips, president of the Columbia River Economic Development Council. However, Phillips was unable to say how many of those businesses were from Portland. So far in 2005, about 14 companies have inquired about relocation to the area, Phillips says.

One of the 18 businesses that moved to Vancouver in 2004 from Portland was Kokusai Semiconductor Company. Last June, the company moved 30 jobs in its sales, marketing and distribution operations to Vancouver.

Roger Qualman, a senior director at the commercial real estate firm Norris Beggs & Simpson and chairman of the Greater Vancouver Chamber of Commerce, says that the decision to move to Vancouver is not as simple as the tax advantage.

“People make decisions individually. There is no herd instinct at work here. For one client we might say, you need to be in Portland and here is why; for another client who has different circumstances we say Vancouver is the place for you. People are making decisions for their own good reasons—sometimes their reasons are economic and some times they are entirely different,” Qualman says.

Qualman acknowledged the effect that the move of a high-income Portlander can have on Oregon’s tax base.

“If an Oregon resident sells their company, they’ll pay Oregon income tax on the proceeds. But if they move to Washington prior to completion of the sale, they won’t pay that tax and if it is a big sale that can mean several million dollars,” Qualman says. “However, that means that Oregon has lost some well-deserved income if the seller has made an overt effort to avoid that tax.”

Qualman stresses that in those situations, it is important to view Portland and Vancouver as one cohesive market—similar to the relationship between Hillsboro and Beaverton.

“Though a move to Vancouver might result in a loss for the Portland area, it’s important to remember that the health of the region supercedes the health of one area,” McKibbin says.

Sandra McDonough, president and CEO of the Portland Business Alliance echoes McKibbin’s regional focus.

“We need to think regionally about how we are building an economy. There may be many motivators to move to Washington and we need to think about the net gain to the region,” McDonough says. “However, we need to be sure we are growing and sustaining the region while still maintaining a strong central city core. We need to look at what motivates people to move. The unvarnished truth is that Portland and Multnomah County face taxes that are not present anywhere else in Oregon, let alone Washington. It is the

only place with a business tax and an income tax. We need to look at those things with a view to the long-term and the survival of the city and make sure they are the right things to do.”

Though the regional picture can look fairly rosy, says Daniel Yates, president and general manager of the Portland Spirit, it is important to note that Portland has been the last one out of the last five recessions.

“It’s the fallacy of the regional economy,” Yates says. “With the explosive growth the region has experienced over the past 10 years, Portland is still hemorrhaging jobs. In 1990, Portland had something like 135,000 jobs and in 2000 that had dropped to 88,000 jobs. Portland itself is doing terrible. The only way to hide that is to talk regionally. It’s time to think locally and try to fix the things we can fix—it’s important to cooperate regionally, but it can’t be our sole focus.”

A 2003 census done by the Portland Business Alliance found 82,262 employees in the I-405/I-5 loop that surrounds downtown Portland. The same census done in 2001 counted 86,769 employees in the same area—a two-year loss of 4,507 jobs.

The tax differentials between Oregon and Washington are the root of the issue, Yates says. Oregon is a good place to start a business because of its income tax—if a company is not making money; there is no income tax to pay. Washington isn’t a good place to incubate a business because of its business and occupation taxes. But once a company starts making money, Washington works better because there is no income tax, Yates says.

“Portland needs to look at what Portland can do to re-energize or reverse its job destruction policies and get its budgeting under control,” Yates says. “By converting to zero-based budgeting or goal-based budgeting, Portland could eliminate the business income tax and kick start the local economy.”

Over the past 10 years, City Hall has had 11 large studies done on the local economy, Yates says. “They hire a consulting firm and have a study done but none of the recommendations have even remotely been started,” Yates says. “City Hall loves avoiding specific fixes.”

Adding to the problem is the lack of new businesses coming into Portland, says Chuck Jones, financial advisor with The H Group.

“We’re scaring them away and we’re not attracting new or expanding businesses,” Jones says.

Companies have no incentive to locate to Portland and those that are looking to expand are disadvantaged to the point that moving is their best option, Jones says.

“There is an awful lot of this going on but we don’t hear about it until it’s done,” Jones says. “The truth is that there is a sizeable savings to be had by moving to Vancouver or even anywhere outside Multnomah County, like Columbia Sportswear did by moving to Washington County.”

Frustration with Portland’s tax structure and local leadership’s reluctance to change it is driving the migration across the river, says Larry Rosencrantz, chairman and CEO of Capital Pacific Bank.

“I know one individual who was a great community supporter who finally said ‘Look, I’ve just given up hope for change,’ and moved to Vancouver. People just don’t see a hope for change in the system,” Rosencrantz says. “For people to make that kind of dramatic shift in attitude, it really shows that they are giving up. It’s really rather sad. The problem is that business hasn’t done a good enough job in telling their story—they just haven’t made their case about why this system isn’t working. People need to get out of their offices and participate in the process. Instead they wait until they have a problem and go to their city councilman and since they haven’t been involved, the councilman says ‘Who are you?’”

Another aspect of the problem is how the city views business and the lack of communication between the two groups, Yates says.

“Our government thinks that business speaks in one voice,” Yates says. “They are terrific at appointing a wide range of activists to committees, but only two business people. Businesses have a broad range of concerns but they think we all think the same thing. Architecture and law firms don’t care about trucking issues and vice versa, but they are all still ‘business.’ They are very clever because they can say the business community did contribute its opinion, but the reality is it was a very narrow contribution.”

There is a clear need for tax reform in Oregon, and Portland businesses moving to Vancouver to escape taxes is a prime example of that need, says Randolph Miller, chairman of The Moore Company.

“Instead of abandoning Portland, we need to be working to provide responsible solutions to the problem. Businesses that are creating jobs are hammered by the tax system and they have a disincentive to stay. We need to fix that problem,” Miller says. “If you’ve developed your business here [in Portland] and you ignore what supported that business by moving over the river and allow the tax base to dwindle, it’s not, in my opinion, a moral thing to do.”

“I can’t agree with that,” Jones says. “There is a sizeable savings for some companies and individuals when they move to Vancouver. That’s hard to pass up. I talk to CPAs every day and they are encouraging more and more clients to move because it makes sense for them. It’s even starting to get to me. If I wasn’t so heavily involved with downtown Portland, my place would be up for sale. It would be hard to give up my view of the river, but it could be worth it.”

Portland city councilman Sam Adams wants to find a way to measure the health of Portland's economy separately from the region in order to determine the best direction for Portland as a city while at the same time bettering the region.

"Vancouver and Portland are very linked as a regional economy. In most cases, what is good for Vancouver is good for Portland and vice versa. But if there is a capital drain from Portland to Vancouver that's a problem for Portland," Adams says. "If we are losing folks due to our tax system that is cause for concern, definitely."

One way of determining the real cost of Portlanders' migration to Vancouver is by defining success and setting benchmarks for Portland's local economy, Adams says.

"There are lots of numbers out there," Adams says. "We need to scrub them and make sure they are accurate and telling a story that is holistic for Portland. We have to be more sophisticated and mindful of the disadvantages of being in a regional economy and determine what does success mean for Portland business and Portland families."

Portland and Vancouver have at best, an uneasy relationship. They are simultaneously allies in a regional economy and adversaries vying for residents and business. The Columbia River Economic Development Council recently published "Top 11 Reasons to Do Business in Clark County Washington," and seven out of those 11 reasons listed factors for choosing Vancouver over Portland. At the same time, the document touted its proximity to Portland's downtown and Portland International Airport.

Are they friends or are they enemies? The best answer is probably both, but that is also the most difficult line to walk for the two cities. Seven miles are either too long between neighbors or too short between rivals.