

Ready to Admit Failure?

Facing up to Portland's lagging business growth

By Melody Finnemore

Rob Bernardi doesn't fault Portland's city leaders for letting him move his business to Vancouver, Wash., without so much as a phone call asking him to stay. After all, says the president and chief operations officer of Kokusai Semiconductor Equipment Corp., his company is relatively unknown despite its presence in Northeast Portland for close to a decade.

"We only have 30 employees. We're not a Nike or an Intel or a Fred Meyer or anybody big like that. It's possible nobody even knew we left," Bernardi says.

On the other hand, Bart Phillips, the president of the Columbia River Economic Development Council (CREDC), called Bernardi several times and mailed him more than enough material to convince him that a move to Vancouver was in his company's best interest. Bernardi had contacted Phillips in late 2003 to gather information that would help him compare the cost of doing business in both cities.

"We needed to double our physical space and our lease was ending. We looked at eight properties on both sides of the river," Bernardi says. "We didn't specifically say, 'The heck with Portland. We're moving to Washington no matter what we find there.'"

What Bernardi found, however, was that Kokusai could save big bucks in taxes and utilities. CREDC's Phillips gladly provided information that outlined the absence of corporate, inventory and income taxes in Washington. Property taxes are lower than Oregon's. Bernardi's due diligence also found electricity cost 7 percent less, there was a 32 percent savings in water fees, and sewer rates were 43 percent lower.

In addition to a lower cost of doing business, Bernardi says, Vancouver offered a strong pool of potential high-tech employees.

"From a labor standpoint, I've got 8,800 potential candidates to choose from. Some may argue that Oregon has just as many, or probably more, but 16,000 of them work for Intel. We're a great company, but I don't think I'm going to recruit many people away from Intel," he says.

The capper for Bernardi was that many of his employees live in Washington, mostly Vancouver.

"That became a consideration pretty quickly because I could immediately have 70 percent of my employees be very happy with the decision to move. It would save them commute time and gas money as well as income taxes," he says.

Bernardi moved Kokusai Semiconductor to Vancouver in October 2004. He credits Phillips and CREDC with making the decision an easy one by providing all of the cost comparison and other information he needed.

“I’m assuming there’s an organization like that in Portland, but I wasn’t aware of one,” Bernardi says. “I realize I could have found the Bart equivalent in Portland and, to be fair, I guess I should have. But, frankly, I don’t know how you counter no corporate or income taxes. That’s pretty hard to beat.”

Low business costs—from taxes to utilities to housing—are essential to a city’s success, and these days the markets that are doing well are increasingly in smaller communities, says Joel Kotkin.

Kotkin compiles *Inc. Magazine*’s annual list of “The Top U.S. Cities for Doing Business,” which in 2005 ranked Reno and Boise as the top two cities, respectively. Medford came in fifth on the list. Portland was 105th. In fact, after several years as one of *Inc.*’s “cities of the future,” Portland had the dubious honor of nabbing eighth place on the magazine’s 2004 list of the worst cities to do business because of “high costs and the anti-business mood.”

“I remember many years ago when Portland was doing better than everywhere else, primarily because other cities were resource-oriented and were really getting clobbered. That seems to have reversed itself,” Kotkin says. “We’ve seen that a lot of smaller metro areas are doing very well and are growing very quickly.

“As housing prices have grown and the political climate has changed, a lot of people are moving to smaller cities that are perceived as more business friendly and where labor is more available because housing is more affordable,” he adds.

Vancouver’s ability to offer a lower cost of doing business attracted Kuni Automotive Group. The company, which opened its first dealership in Beaverton nearly 40 years ago, relocated its corporate headquarters from Portland. As an S corporation, Kuni Automotive was required to pay state income taxes on automobiles sold outside of Oregon. With 10 dealerships in four states, the company’s savings since it moved to Vancouver two years ago has been “significant,” says Greg Goodwin, chief executive officer.

Kuni Automotive’s chief financial officer wrote several Oregon leaders, including the governor’s office, about the company’s decision to leave Portland. The response was less than overwhelming, Goodwin says.

“He received a phone call from Karen Minnis’ office, and I don’t recall that it led to a substantive conversation or inquiry of any kind,” he says, adding that former Mayor Vera Katz’s response to news of Kuni’s departure was equally unsatisfying. “I don’t remember her exact words, but it was to the effect that we were making a mistake. That’s the extent of any comment or inquiry that we received. I find that disappointing.

“There are a lot of Portland expats living in Vancouver, and I think that points to a fundamental problem,” Goodwin adds.

Plenty of paper generated within the last couple of years bolsters the argument that Portland is failing as a competitive place to do business:

- A 2004 Downtown Business Census conducted by the Portland Business Alliance shows that downtown lost 4,272 workers between 2001 and 2004. Although 235 new workers were added in 2004, the total number declined from 86,769 in 2001 to 82,497 in 2004.
- The Oregon Employment Department’s latest unemployment figures show that Portland is recovering from the recession slower than other cities. According to the November 2005 report, the Portland metro area is adding new jobs at a slower rate than Bend and Medford.
- The Cascade Policy Institute, a Portland think tank, issued a report in November that states the Portland/Multnomah County Business Income Tax prohibits the city’s economic growth. Author Steve Buckstein says the perception that Portland is less business friendly than nearby counties is fueled by its higher taxes and unemployment.
- The City Club of Portland launched its own study just last month and will spend the next year exploring Portland’s strengths and weaknesses as a place to do business. When it’s published in January 2007, the report will outline the factors that affect business decisions, how they impact different types of businesses, and how local government and communities should respond.

Despite the stack of reports and news clippings to the contrary, there are many who dispute the assertion that Portland is hemorrhaging companies or that it even has a reputation as an anti-business city.

“I think some of this is media that repeats something until it becomes a perception on a national level,” says John Doussard, Mayor Tom Potter’s communications director. “I read an article in the paper that said 14 businesses left town, and it neglected to mention the 81 businesses that started at the same time.”

Portland has leveraged \$96 million in private investment during the first six months of the current fiscal year, according to the Portland Development Commission (PDC). Enterprise zone applications for that period represent nearly \$94 million in private capital investment. Recent successes include:

- YoCream International Inc., a Portland company founded in 1976, plans to add 21,000 sq. ft. of space to its facility on Northeast Airport Way.
- LaCrosse Footwear Inc. announced last fall that it will lease a new 145,000-sq. ft. building on Northeast Airport Way for its corporate headquarters and distribution center. LaCrosse plans to move into the new space in June.

- Asterix Group, a small, women-owned creative services firm, expanded its offices downtown last fall. PDC officials say they provided the company with information about the apportionment of the business license fee and business income tax, which ultimately saved the firm thousands of dollars.
- Other recent investments have been made by Oregon Steel Mills, Inc., US Bakery/Franz Family Bakeries and TCI America, according to PDC.

Bob Alexander, PDC's economic development director, says the agency is exploring ways it can better communicate its business recruitment and retention efforts.

"We're talking with private sector groups and other ambassador groups about ways we can get the word out," Alexander says. "It's almost that we have to get the word out locally about our competitiveness as a national site. We've become our own worst enemy in creating a perception."

PDC has enlisted the help of the Portland Ambassadors, a coalition of private industry leaders and public partners formed 20 years ago to support the city's business recruitment and retention efforts. Members of the group often accompany PDC officials who meet with businesses, not only those being courted to move to Portland but also companies already located in the Rose City that have complaints. Many of the complaints, Alexander says, are about the city's business tax burden.

"Oregon is not a particularly high-tax state. It's in the mid-ranking compared to other similar areas," he says. "While it is an issue, it tends to be a localized issue within the region that puts us at a competitive disadvantage."

Plenty of business people would differ on the state's relative tax position. Rankings vary according to which burdens are being measured. Since the passage of various property tax measures, the state has shifted to greater dependence on fees and assessments rather than overt taxes. Even Gov. Kulongoski acknowledged in a 2002 *BNW* interview prior to his first gubernatorial campaign, "The problem is that Oregon has moved to a system of fees and assessments."

Alexander says PDC does its best to meet with business owners who have expressed discontent with Portland and are considering moving their companies elsewhere. Still, he agrees there is room for improvement.

"We've certainly looked at ways we can leverage the Portland Ambassadors and other private business groups," he says. "We're discussing with the brokerage companies ways we can find out about potential losses earlier than we might otherwise."

"One of the benefits of having closer communication is that it helps dispel the perception that the city isn't talking to businesses or businesses aren't talking to the city," adds Anne Mangan, PDC's marketing coordinator. "We're really trying to make a stronger effort to communicate with the private sector so they don't feel disenfranchised."

For some like Neal Arnston, president and chief executive officer of Albina Fuel Co., it's too little too late. In December, after 94 years on Northeast Broadway, the company moved to Vancouver.

"Portland's business climate certainly played a part in that decision because of the unwillingness of the city's leadership to deal with congestion," Arnston says. "I think they're more concerned about the three or four percent of the population who ride buses and light rail and live in Dignity Village. It's a dismal climate and the city government and Metro, collectively, are trying to drive everybody off the streets and onto the train."

Arnston says the company's 100 employees were happy to make the move since the lack of income tax in Washington meant a 9 percent pay raise for each of them.

When the company announced its plans to leave Portland, just one city official met with Arnston to talk with him about the decision. "The only guy who cared was Jim Francesconi, and we know what happened to him," Arnston says.

Doussard, Mayor Potter's press aide, says the mayor had planned a series of public work sessions to address Portland's business tax structure early this year. However, the work sessions were postponed and have not yet been rescheduled.

Multnomah County Chair Diane Linn says she is disappointed by the Portland City Council's unwillingness to confront the issue more quickly.

"I do feel some frustration about that and I feel we've missed some real opportunities because we didn't move sooner or better," she says. "I'm convinced it harms our business environment. I'm worried about the small and medium-sized businesses and about businesses who pay more than their share. There are some real flaws in how the Business Income Tax has evolved over the years. We're the only county in the state where companies have to pay for the pleasure of doing business."

Possible options for tax reform include increasing the amount of compensation business owners can deduct from their taxes, Linn says. However, a proposal by City Commissioner Sam Adams to do just that floundered before the rest of the council. Linn says she hopes to find ways to reduce the county's reliance on the tax because it's an erratic source of funding that provides no certainty to the budget process.

"It's a tough one because once you implement a tax of this kind, it's hard to dismantle it," Linn says. "There's a growing reliance on the BIT and Business License Tax (BLT) for school funding, and that's going to become a real issue."

Albina Fuel's Arnston gives little credence to the notion of real change within Portland's business climate. For many company owners like him, fundamental improvements should have occurred long ago.

“Don’t you think they ought to be doing something for the business community before we decide to leave?” Arnston says.

Reno

The “Biggest Little City”...and the best place to do business in the U.S.

Harry York admits that people questioned his decision to move to Reno, Nev., just over a decade ago.

“When I moved here people said, ‘Why in the hell are you moving to Reno?’” says York, chief executive officer of the Reno-Sparks Chamber of Commerce. “We had this image as a place where there was nothing but gaming and whorehouses, which wasn’t fair, but that was people’s perception.”

Reno’s efforts to change that perception have paid off. It ranked first on *Inc. Magazine’s* 2005 list of “The Top U.S. Cities for Doing Business” because of its low housing prices and business-friendly environment. A steady migration of business owners, many of them from California, drove a 14.1 percent increase in business service jobs and a 6.1 percent increase in financial services jobs between 2001-05, according to the magazine.

Entrepreneur magazine ranked Reno as the “Best Small City in America for Small Business” last year, and *Fortune* magazine ranked it as one of “America’s Top Three Booming Towns.” Both *Time* and *Forbes* touted Reno for its quality of life and business-friendly environment.

Chuck Alvey, chief executive officer of the Economic Development Authority of Western Nevada, says Reno has focused on three strategies during the last decade: improving recreational and community amenities, strengthening its business climate, and building a citywide sense of self-esteem.

“When I first got here 15 years ago, people were friendly but seemed kind of down on themselves as a city. There wasn’t a real sense of community self-esteem,” Alvey says.

York adds that Reno was well known for its advantageous location and strength as a hub for shipping and distribution because it has no inventory tax. A major change within the last decade has been in Reno’s quality of life.

Reno began marketing recreational opportunities such as a downtown waterway for kayakers and rafters, a vibrant arts community and its recruitment of national retailers such as Pottery Barn and Williams-Sonoma. City leaders recognized that Reno’s school system, marked by a high student pregnancy rate and a low number of teens going on to college, needed a major overhaul. The quality of its housing and health care also improved significantly, York says.

Reno’s efforts to improve its business climate included streamlining its permitting process by establishing one-stop permit shops and making sure each city within the metro

area operates on a similar system to increase efficiency. In addition, Reno privatized its workers' compensation system to control costs and extend reporting periods, Alvey says.

Reno recently launched Target 2010, a strategy designed to guide the city as it faces booming population growth and a changing economy.

"We're going to keep being competitive and recruiting new business, but over time we're hoping to do a lot more of the expansion and location of startups so we have organic growth instead of poaching from elsewhere," Alvey says. "I don't think that helps the long-term growth of the economy."

In marketing itself to companies, Reno offers some minor tax incentives for companies that offer high-wage jobs. What makes it more attractive, however, is that businesses don't have to pay personal income, corporate or inventory taxes, Alvey says.

"When we had exclusivity on gaming, that took care of our taxes. In recent years we've had to adjust things, but there have been limits on raising taxes," he says.

While the increased competition for gaming has forced Reno to explore other revenue sources, the city will continue to build on its reputation as an affordable place to do business. "Having low taxes isn't a gift, it's an investment," Alvey says.

Boise

No small potatoes

It was a banner year for Boise, Idaho, when it came to national rankings of the best American cities to do business. Idaho's capital city nabbed first place on *Forbes'* 2005 list and second in *Inc. Magazine's* most recent ranking, proving the success of its strategy to capitalize on its affordability, says Jeff Jones, Boise's economic development manager.

"Our target, contrary to popular belief, isn't large corporations with a lot of employees. Our target is smaller firms, 10 to 15 people, in high-cost, West Coast cities," he says. "These companies rely on labor and if they are going to survive, their employees have to be able to find affordable housing."

Boise's average home price is about \$240,000, Jones says, noting the ability to find a quality home in Boise for \$200,000 gives it an advantage over Oregon and California.

"That same house in Portland costs \$306,000. When you're dealing with those kinds of dynamics, it makes it easy to be competitive from a labor standpoint," he says.

Low-cost utilities are another of Boise's strengths, Jones says, adding that a plentiful supply of hydro dams means Boise offers among the lowest electric bills in the country. He also markets Boise's affordability when it comes to taxes.

“Companies are attracted to our ability to balance our sales tax, income tax and corporate tax,” Jones says. “We refer to it as the three-legged stool so that none of them are extremely burdensome.”

Boise is home to Fortune 500 giants such as Micron Technology Inc., Washington Group International, Hewlett-Packard, J.R. Simplot Company, and Albertson’s. Those companies have helped the city recruit others.

“That’s really where 80 percent to 90 percent of our growth will come from. We have great companies, and they help us recruit new ones,” Jones says.

Spin-offs and a cluster approach to economic development have strengthened Boise’s competitiveness as a good place to do business, Jones says. As part of its cluster strategy, Boise’s economic development department recruits businesses based on a series of screens that begins with reviewing a company’s employment base.

“Those that are losing employees I’m not interested in because why waste time on a dead thing?” Jones says.

Payroll increases and a “locational quotient,” or labor availability within specific sectors that match Boise’s strengths, make up the second and third screens. Companies that pass the three screens are then considered recruitment targets, Jones says.

“When it comes to industry recruitment, I’m going to go after companies where I know I have a competitive advantage. You build on the strengths you already have,” Jones says. “We do the same analysis on our competitors. I’m sure they don’t appreciate it, but all’s fair in love and war.”

Medford

E is for effort, enterprise and e-commerce

Once known more as a rural haven for retirees than a dynamic business market, Medford has emerged as a hot spot for companies seeking an affordable place to operate. The Southern Oregon city ranked fifth on *Inc. Magazine*’s 2005 list of “The Top U.S. Cities for Doing Business.”

Among the city’s greatest strengths, economic development leaders say, are its status as both an enterprise and electronic commerce zone. Medford was one of four Oregon cities to be designated an e-commerce zone in 2002 by the Oregon Economic and Community Development Department. The designation, which allows Medford to offer income tax relief to businesses, builds on the property tax breaks it has been able to include in its incentives package as an enterprise zone.

“The benefit of those two programs is that they provide an incentive to the business community—primarily manufacturing and distribution companies—to do some expansion in exchange for a 10 percent increase in employment,” says Gordon Safley,

executive director of Southern Oregon Regional Economic Development Inc., a private nonprofit established to help companies in Jackson and Josephine counties create jobs.

“For large companies it can provide some significant earnings, and for smaller companies it can help them grow and show them that they are supported by a business-friendly community,” he adds.

Bill Hoke, Medford’s economic developer, says the city worked hard to obtain the e-commerce zone because of its benefits to the business community.

“It took a great deal of community involvement. We are one of the most active zones in the area, by far. I publicize it, and I encourage its use in business retention and expansion efforts,” Hoke says. “I think one of the secrets of our success is we use the tools we have to the greatest benefit.”

In addition, Medford is bolstering its business-friendly image by implementing changes to streamline its development review process.

“We frontload the process so all of the meetings are held early on,” Hoke says. “I act as a point of contact so people can deal with just one person, which is helpful, especially on large projects. If there are questions, I find the answers, and if something needs to be done, I chase it down. It gives people a degree of certainty and confidence because they know I’m there to help.”

Collaboration among the city, county, utilities, local chambers of commerce, the Southern Oregon Visitors Association, the state economic development department, and private business owners has been crucial to Medford’s success as well. A pro-business city council has been invaluable, Hoke adds.

“I came in and started a program from scratch and the council has given me 100 percent support in what I do to recruit and retain companies,” he says. “One of the keys is to have council support. If you don’t have that, it’s very difficult to do business.”