



Memorandum

Date: September 9, 2011
To: The Honorable Mayor Adams, City of Portland
From: Portland Business Alliance
Re: Economic Opportunities Analysis

The Alliance would like to comment on the forecasts for employment growth in the City of Portland Economic Opportunities Analysis (EOA). The EOA is an important document that informs policy decisions that will affect long-term economic outcomes. Encouraging employment growth within the city of Portland is of critical importance to the long-term health of the city, the Portland-metro region and the state.

The supply and demand forecasts in the draft EOA propose that 30 percent of regional employment growth will be accommodated within the city of Portland. The Alliance supports this proposed employment growth capture rate for the following reasons:

The recent study *A Checkup on the Portland-Region's Economic Health* showed that the Portland-metro region suffers from lagging per capita incomes and wages relative to peer regions and the national average. These economic indicators should be of great concern not just to the region but to the entire state, as the Portland-metro region is the state's economic hub and major driver of fiscal health. Lagging growth in private sector jobs and wages means less revenue to pay for critical public services – schools, public safety, and infrastructure – than would be available if our economy performed like our peers.

Research by ECONorthwest indicates that, since the 1970s, Oregon tax payers have informally set a limit on the proportion of their income they are willing to pay for state and local public services. Therefore, the only real way to both facilitate economic recovery and restore the fiscal health of the public sector is to grow the revenue base. This means that creating an environment favorable to business growth is essential.

Business location and growth decisions depend on the presence and quality of specific factors: land availability, access, educated and skilled workforce, modernized infrastructure, and a business-supportive regulatory environment. With appropriate leadership, Portland can be well-positioned relative to these factors to attract new firms and encourage existing firms to expand. Therefore, the Alliance recommends

that the city of Portland do everything it can to maximize its potential as an economic hub for the region.

Encouraging employment growth within the city of Portland is also necessary to ensure implementation of regional growth plans. Metro's 2040 Growth Concept, and related Centers and Corridors strategies and their infrastructure investment decisions are predicated on the city of Portland capturing a significant amount of employment and population growth. Additionally, the Portland Plan draft calls for more living-wage jobs within the city of Portland. These plans and strategies rely on the city making the necessary policy decisions to promote and accommodate growth within the boundaries of the city. If the city fails to meet these population and job growth targets, the entire regional land use and transportation strategies will be seriously undermined.

The EOA proposes a low, middle and high employment growth scenario, based on Metro's Urban Growth Report. According to US Census Bureau Quarterly Census of Employment and Wages (QCEW) data, Portland historically captures around a middle-range growth rate; approximately 30 percent of the region's job growth. For the years 2005, 2006 and 2007, which represents the growth period in the last economic cycle, the city had between 30% and 36% of the region's job growth. Between 2002 and 2009, a period marked by rapidly expanding suburban growth around the country, the city still attracted an average of one in four jobs in the region. Therefore, a middle-range growth rate is both a necessary and reasonable assumption for the city of Portland, and all regulatory and investment policies should be directed to achieving this goal.

While the Alliance acknowledges structural changes in the national economy, and production may have led to slower growth over the last two decades, coupled with the 2008 economic recession, the growth of existing and future industry clusters can be supported by Portland, based on the business location factors mentioned above.

Regional Interdependence

The city operates within a regional economy and its importance as both an employment hub and a trade gateway are essential to the region's health. Large firms that are located elsewhere in the region are linked to the industry base in the city of Portland. For example, a large technology firm located in Washington County could have its patent attorneys, advertising agencies and insurance brokers located in Portland's central city. The economies of both locales are interdependent.

While the economy functions regionally, global trends show that cities will play an increasingly important role in economic development, sustainability, and efficiency of scarce public resources. According to *The Economist*, the world's largest cities have grown over three times in population over the past 60 years. Over half of the world's population now lives in cities. Urbanization typically comes, in the long term, with great gains to human and economic development: it helps to create wealth, spur innovation, encourage freedom and improve the education of those who live and work in cities. This proximity of industry and workforce translates into rising per capita income, wages and private sector job growth.

The Alliance urges the city of Portland to direct policies to facilitate urban economic growth in Portland, mirroring global trends. For the following reasons, we believe the foundation is present for attracting this type of demand:

Land Availability

The city has a finite supply of land in its boundary, but the utility of that land can be improved to encourage growth within the city, particularly with professional service-based sectors. Portland is poised to accommodate job growth in sectors that are less land-intensive, such as professional services, finance, insurance and real estate; as well as maintain steady employment numbers in industries that are more land-intensive, such as manufacturing and warehousing. Ensuring the right tools to ensure sufficient land supply and development feasibility will be essential to realizing employment growth in the city's finite supply of land.

Access

There are economic benefits to firms and people being located in cities, due to the physical proximity that urban density encourages. For businesses to thrive, they need access to ideas, workforce, transportation and trade networks. These elements are all more valuable the closer they are to each other. Studies show that density of cities facilitates innovation and commerce. The proximity of educated and skilled people leads to knowledge spillover, which generates new ideas and fosters development.

The proximity of firms leads to collaboration and competition, which spurs economic growth and innovation. Therefore, facilitating job growth in urban areas actually generates the opportunity for more growth, furthering the city's capture of regional employment growth. With these trends in mind, it is important to recognize the role that the city plays in bolstering the regional and state economy. Portland's strong legacy of urban planning reinforces the central city as the region's economic hub and positions business location decisions to favor the proximity and access an urban area such as Portland offers.

Educated and Skilled Workforce

Portland has a wealth of young talent, attracted to Portland's reputation for quality of life, relatively low cost of living, and relative ease of entry into entrepreneurship. According to the *Climate Prosperity Project*, the Portland-metro region has 30 percent more young, educated people than the national average. This translates into a skilled and ready workforce. An educated population facilitates economic growth. Research by Harvard Economics professor Edward Glaeser in his *Triumph of Cities* shows that a presence of an educated workforce increases the entire population's income levels. According to Glaeser, individual wages typically rise by about 8 percent as the population with college degrees goes up by 10 percentage points.

To retain all of the young talent that has migrated to Portland as well as fostering Oregon's own talent, the city of Portland must facilitate an environment for entrepreneurship by keeping taxes for small business and capital gains competitive with peer cities. The city must also assist in bolstering the growth of research and innovation facilities, such as PSU and OHSU, to create spin-off opportunities for

industry. Through an entrepreneurial and innovative environment, Portland can secure the supply of young creative talent to meet demands in industries that Portland has strength; including research and innovation, software, apparel design and advanced manufacturing.

Modernized Infrastructure

National and local-level funding deficiencies for supplying infrastructure to under developed or undeveloped areas makes development in areas with existing infrastructure even more critical for industry location. The EOA indicates that central Portland currently holds 34 percent of the city's jobs (excluding central city industrial). The central city is forecasted to grow over three times the amount of jobs it holds today. This high concentration of firms and steady growth can be supported by the significant public-private investments already made in transportation, telecommunication and water/sewer infrastructure, focusing the density and convergence of those investments into Portland's central city.

These investments allow a greater share of growth to be located on a smaller amount of land, thereby increasing the efficiency of the limited supply of developable land. This infrastructure investment is a testament to the long-term growth management vision of the metro region and its focus on the central city as the region's economic hub, and employment center. Focusing policies that remove barriers to high-density development will be critical in realizing these employment goals.

The economic importance of existing infrastructure is true not only for the central city office jobs, but also for the trade gateway and the city's harbor and industrial lands. The EOA indicates that the industrial sanctuaries of Central Eastside and Lower Albina hold 25 percent of the city's jobs, and will grow by over three times by 2035. While national trends show a decline in manufacturing, Portland's industrial districts have remained constant in employment numbers.

Significant growth in China, combined with the weakened US dollar, make export-related manufacturing industries situated on the west coast more viable than national-level manufacturing trends suggest. The recent study on International Trade shows that export-related industries are a significant net generator of jobs and income for the city, region and the state. It is one of the areas of the economy that, despite the recession, is growing. The city's access to rail, truck, air and marine freight make it an advantageous location to connect domestic and international markets and grow traded sector jobs, including exports. The importance of ensuring there is suitable infrastructure and roadway capacity to support industrial activity will be essential to realizing job growth in this area of the city.

The region's trade gateway is also located in the city of Portland. A recent Brookings Institution study showed that the Portland-metro region is in the top twenty US metropolitan areas in exporting strength and one of only four metropolitan areas in the country that doubled the real value of their exports between 2003 and 2008. This includes exports in the electronics sector, as well as manufactured goods and service exports. Ensuring that there is sufficient infrastructure capacity in the city of

Portland to support the trade gateway for the region's traded sector-dependent economy is critical to the entire region and the state.

Regulatory Environment

Oregon's land use system is based on a regulatory-focused regime. In the 1970s, protecting farm and forest land with the Urban Growth Boundary was an effort to protect Oregon's primary industry base – agricultural and forest products. While these are still important industry sectors, Oregon's ability to embrace the global, knowledge-based service economy will play a critical role in Oregon's economic future.

Elected officials have made a decision to allow minor and few expansions for developable land. As the existing vacant land supply dwindles over time due to population and employment growth, it will be more necessary than ever to create an environment that assists the market in developing at a higher density and protecting the existing employment land supply from additional overlays that hinder development with added regulation and cost.

Portland has supplied a cadre of tools that were elemental in making high-rise development feasible; tax abatements, urban renewal, and FAR bonuses and transfers. If the region continues to limit expansions of the Urban Growth Boundary, then regional elected officials and especially Portland-metro area elected officials must make a commitment to supplying development tools that support market-gaps in development.

This means continued availability of tax increment financing in the central city, tax abatements for mixed-use or high-density projects, taxes and fees, particularly development exactions, which existing businesses and developers can agree to as reasonable for the return achievable. This also means that any land that is already zoned or included in a comprehensive plan district as employment cannot be overlaid with additional regulations, or frittered away with other land uses.

Finally, this means that the cost of doing business must be kept competitive with what the market can bear. Growing business to increase tax revenues is the only sustainable strategy for paying for public services and paying for costly remediation. Burdening existing or future tax payers with an increasing share to fill a deficit is not. If Portland wants to attract the growth of employment that it should and can capture, then ensuring a regulatory environment that actually does this is important.

Conclusion

While the Portland-metro region has suffered lagging private sector wages and incomes compared to peer regions and the national average, the opportunity for recovery and growth is real. The city's Economic Development Strategy Two Year Status Report demonstrates this trend. According to the report, the city grew 1,900 jobs and retained 1,100 jobs in the target clusters alone, amidst the recession.

These gains, made mainly in software, apparel design and clean tech, and stabilization in advanced manufacturing, parallel the population growth and

investments the city and the region has chosen to attract. If the city can continue to make strides in ensuring employment land availability, access to industry and educated workforce, modernized infrastructure and a business-friendly regulatory environment, then Portland will maintain and strengthen its role as the regional and state economic hub.

Based on past investments that provided the blueprint for urban growth and Metro and the city's focus on job creation, the Alliance has confidence in the city's ability to generate enough demand for a significant amount of economic investment. The Alliance urges the city of Portland to plan to encourage a middle-to-high share of regional employment growth, which translates to around 30 percent capture rate of regional employment, or over 150,000 jobs by 2035.

This growth will not happen on its own, however. The Alliance challenges elected officials at Metro, Multnomah County and the city of Portland, to prioritize this job growth goal by focusing all regulatory and incentive tools to realize a 30 percent capture rate. We encourage you to work with us to this end.

cc: Chair Don Hanson,
Planning and Sustainability Commission
Susan Anderson
Joe Zehnder
Eric Engstrom
Steve Kountz

