OREGON: THINGS MAY LOOK DIFFERENT HERE, BUT THE GRASS IS STILL GREEN

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For most of my life, pride and national leadership has been the ethos of Oregonians. But, as we all have observed over the past few years, these attributes have escaped our self-perception.

Certainly we must aspire to improve the fundamentals in this state. We are all aware of recent negative elements such as education achievement, slipping per capita income, and higher rate of governmental dependency. However, if we search just a little deeper, we quickly find a true perspective as it relates to other states.

That deeper digging led to a study I co-authored called "Is the Grass Really Greener in Other States? An Oregon Perspective."[1] The study was based on business leader John Calhoun's observation that Oregon maintained many strengths relative to our western peers of California, Washington, Idaho, Nevada, and Arizona.

Our research confirmed that our Western peers have challenges every bit as bad or worse than those we face. Much of our angst in Oregon is due to the heated debate and schism fostered by Measures 66 and 67 earlier this year. As a consequence of the legislature refusing to endorse the compromise between many elected officials and business organizations, a huge rift now divides our state, and this negative view pervades many business leaders yet today.

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[1] Calhoun, J., Vernier, D., Miller, R., Jacobson, K., Arnerich, T., and Jackson, J. Is the grass really greener in other states? An Oregon perspective. August 2010. Available for download at http://oregonbiz.info/.

IS THE GOLDEN WEST ALL THAT GOLDEN?

Should these disenchanted business leaders abandon Oregon for other western states? Should they look at California with it near total fiscal collapse? How about Washington, which in total business taxes, has a far heavier burden than Oregon? Arizona just added close to a billion dollars in new taxes, and their anti-immigration policies have inhibited their ability to recruit new talent. Idaho claims they offer advantages to Oregon business, but they have a corporate tax rate equivalent to Oregon's in addition to a six percent sales tax.

California

California was once known as the Land of Milk and Honey. Now it looks like the milk and the honey has made a sticky mess. The state is facing the third highest unemployment in the U.S. According to the Tax Foundation, California is the second worst state in which do business, just behind New York. California's taxes on business equal 4.7 percent of gross state product, a number that is more than 25 percent higher than Oregon's. On top of its corporate income taxes, California has an 8.25 percent sales tax and a top personal income tax rate that is not much different from Oregon's top rate.

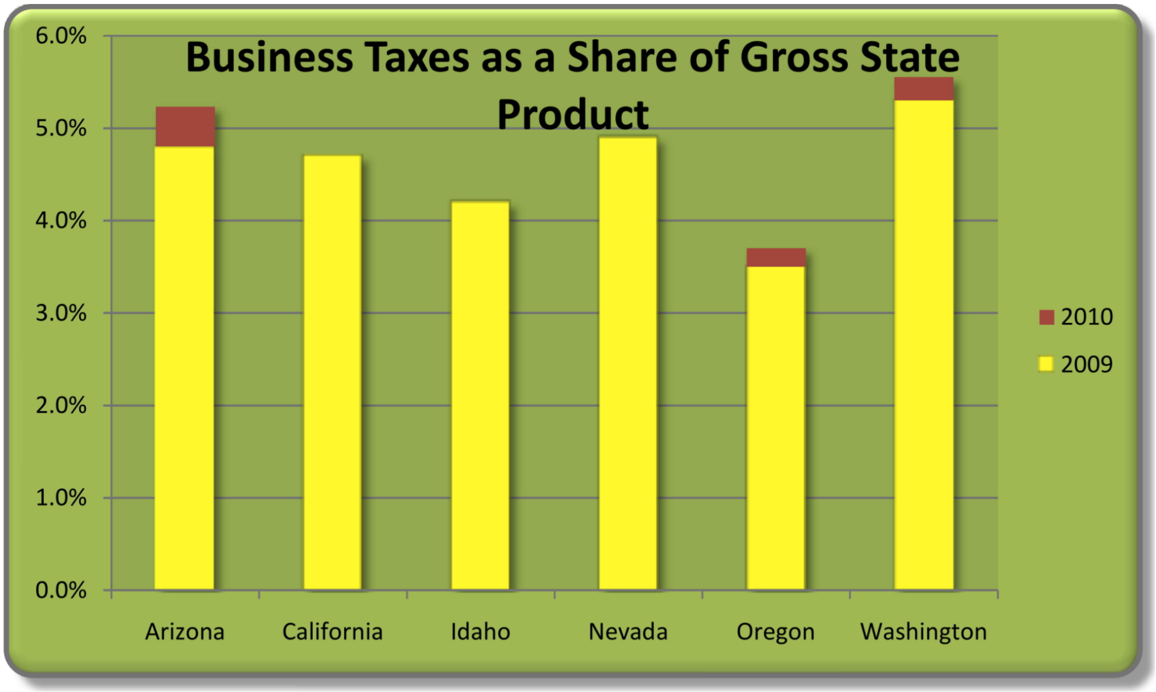
Even so, California has been facing several years of severe budget cuts. The Sacramento Bee reported that "In just two years, budget cuts have reduced per pupil spending by $1,500 per student ... pushing our schools to 45th in the nation in per pupil spending." The Center on Budget and Policy Priorities also reports that the University of California increased tuition by 32 percent. In contrast, Oregon announced its increased tuition will average 6 percent this fall.

Washington

In the last legislative session, Washington passed a $780 million revenue package that increased Washington's taxes on businesses. Washington increased its gross receipts tax on service providers such as doctors, lawyers, architects, and accountants.

Washington collects approximately $2.5 billion annually from its Business and Occupation (B&O) taxes. The recent increases in B&O tax for the service industry is expected to increase state revenues by about $250 million, with another $250 million forecast from a variety of minor changes to B&O tax policy. The sales tax and excise tax increases represent roughly another $250 million in taxes. All told, Washington's business tax burden as a percentage of state income is expected to increase by about 0.25 percent, based upon the current $300 billion size of the state's economy.

Washington's taxes on businesses, as a percentage of the state economy, are amoung the highest in the West. According to the Council on State Taxation, in fiscal year 2009, Washington state and local taxes on business equaled 5.3 percent of state income. That is 50 percent higher than the figure in Oregon.



Source: Author's calculations based on Council on State Taxation

Idaho

While Idaho made headlines about recruiting companies from Oregon after Measures 66 and 67, they face many fundamental disadvantages in this task. The state is small, isolated from major markets, and lacks Oregon's industrial base and infrastructure. For example the Portland airport serves five times the number of passengers as Boise and air connections are an important consideration for locating a business. While access to capital is a significant concern in Oregon it is substantially worse in Idaho according to CNBC. All of this is reflected in the fact that the 2008 GDP per capita in Idaho is only 77 percent of Oregon's ($29,900 in Idaho vs. $38,800 in Oregon).

According to the Council On State Taxation, Idaho's taxes on business represent 4.2 percent of gross state product – compared to Oregon's 3.7 percent. Idaho's corporate profits tax rate is 7.6 percent, identical to Oregon's new permanent rate on profits exceeding $1 million, but above the 6.6 percent for small companies with profits below $250,000. Idaho has a 6 percent sales tax,20 a point that is conveniently overlooked when the state tries to recruit companies from Oregon.

Nevada

Nevada, according to the Council on State Taxation, has the second-highest taxes on business of the six states we looked at, with taxes on business representing 4.9 percent of gross state product.

Nevada's recent economic performance is abysmal. It has the highest foreclosure rate in the country and, not surprisingly, the highest unemployment rate in the nation. In June, Nevada's unemployment rate hit 14.2 percent. In 2010, Nevada has lost jobs, the only state in our survey to lose jobs this year. Massachusetts-based IHS Global Insight forecasts that Nevada will see no job gains in 2010.

In 2009, the Nevada Legislature addressed its budget gap with $781 million in tax increases, with $346 million coming from an increase in Nevada's tax on payroll, from 0.63 percent to 1.17 percent for the portion of payroll exceeding $250,000.

Arizona

Oregon isn't the only state where voters approved tax increases to protect vital services. Facing a 16.5 percent decline in revenue (compared to Oregon's 19 percent), and with the 2nd-highest home foreclosure rate in the country, in 2010, Arizona took a very similar approach to that followed by the 2009 Oregon legislature—a mixture of steep cuts, along with new sources of revenue.

In May, Arizona voters approved a 1 percent increase in the statewide sales tax, with 64 percent voting in favor. The tax had the strong support of the state's Republican Governor, Jan Brewer, and was placed on the ballot by the Republican-controlled legislature. Had the sales tax failed at the ballot, it would have automatically triggered contingency cuts of $862 million: $428.6 million to K-12 schools, $107.1 million for universities, and $15.2 million for community colleges.

Arizona's sales tax is now 6.6 percent. In 2009, before the sales tax increase, Arizona's taxes on business equaled 4.8 percent of gross state product – more than 25 percent higher than Oregon's. The tax hike represents an approximate 9 percent increase in Arizona's business taxes, which would raise Arizona's business taxes as a percentage of Gross State Product from 4.8 percent to 5.2 percent.

Because the sales tax increase covered less than half of its budget deficit, Arizona is still making large cuts in state spending. In March, the legislature adopted a budget that cut $1.1 billion to arrive at an $8.5 billion annual budget.

LOOKING FURTHER EAST WILL NOT PROVIDE GREENER PASTURES

So, how about other states in the Midwest and East? With few exceptions, most states are also in dire straits. Delegations of about 50 business, education, and government leaders frequently visit other regions to observe other community fundamentals. I have been leading these are Best Practices trips for more than 20 years. We recently visited Detroit which has an effective unemployment rate close to 45 percent, huge outmigration, a minimal tax base. The traditional school system is so bad that about 40 percent of their kids are enrolled in charter schools. Other cities in the east may not be this troubled, but they are far more challenged than we are.

As I surmise our future, I am thankful we have so many advantages. I feel our key ingredient for economic prosperity can be found by analyzing who is moving to metropolitan Portland. We are one of the leading US cities which is attracting a cohort which is actually declining in most regions of the country: the highly educated 22-35 year old segment. With a dearth of jobs commensurate with their education, it may surprise locals as to why they are attracted to this region. The reason? Their values and ideals are in alignment with the ethos of this community. Our consistent advocacy of environmental stewardship, land use, transportation choices, and lifestyle options appeals to this demographic, and they are willing to be underemployed (for a time, at least) to enjoy living here. This is an economic driver in itself, as their education and skills will result in creativity and innovation as new employment opportunities arise. We must be mindful, however, that we must relentlessly focus on employment opportunities and economic growth so we don't ultimately lose this generational advantage.

It is time Oregonians recognize that we possess significant advantages and opportunities here, despite the rancor over tax and other policy issues. Instead, we should focus on those fundamentals which we agree underscore the benefit of being Oregonians, and work with policy professionals to address the shortcomings to sustain our leadership as national pioneers in innovative concepts. ■

Randy Miller is President of Produce Row Property Management Company and former Chairman, The Moore Company. He is a Director of AAA of Oregon/Idaho, Air Advice Corporation and the PGE Foundation. He is also Director, Greenlight Greater Portland; Director and former Chairman, World Affairs Council; Director and Former Chairman, Oregon Sports Authority; Director, Central Eastside Industrial Council; Member International Air Service Committee, Port Of Portland; Member, Mayor's Cabinet of Economic Development; Member Oregon Business Plan Steering Committee; and Chairman, Business Committee at the Oregon Business Association. He was previously Chairman of the Ambassador Program For Economic Development; Director, Portland General Corporation; Chairman, Portland Metro Chamber Of Commerce (Portland Business Alliance); Commissioner, Portland Development Commission; Commissioner, Portland Housing Authority; and Chairman, Governors Commission on Brand Oregon. He has a BS from Boston University and an MS from Portland State.