
Improving Deschutes County's Competitiveness: Business Location and Retention Factors

Summary of a report by Headwaters Economics
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Introduction

Almost all of the highest flyers in the West during the past several decades have struggled during the most recent national recession. Nowhere is this contrast between economic boom and subsequent decline more dramatic than in Central Oregon's Deschutes County.

In the early 1990s, Deschutes County reinvented itself from a timber and related wood-products manufacturing economy into a real estate and construction, hospitality, and service economy. By doing so, it developed into one of the fastest growing micropolitan areas in the country and experienced an economic transformation that was the envy of many in the West.

The national recession that began at the end of 2007, however, pointed out the weakness of this new economy: Deschutes County now has one of the worst unemployment rates in the region and the highest among similar fast-growing peers across the West.

This report analyzes the reasons behind this reversal of fortune and then turns to how Deschutes County can facilitate its economic recovery by exploring what makes the region a compelling place to conduct business and how Central Oregon can increase its long-term economic diversity and resiliency.

We achieve this by reviewing a wide variety of trends and data for Deschutes County and four peer counties in the West. We also interviewed local businesses leaders and company owners, and talked to economic development experts across the West.

We asked them what the most important factors are in their region for business and employee location and retention decisions. The responses paint a clear picture of competitive strengths and weaknesses for Deschutes County. They point to the importance of a mix of traditional location and retention factors such as base costs (e.g., land and transportation prices) and non-traditional quality of life factors (e.g., open space and trails, and low crime rates).

What brought many individuals and businesses to Central Oregon is not necessarily what sustains enterprises. Understanding the right mix of cost and quality factors is important to retain current businesses while building a more diverse and resilient economy in the region as a tentative economic recovery begins.

Recommendations

The recession experience, local interviews, and discussions with experts in peers point to a number of approaches and action items worthy of consideration for Deschutes County.

The research for this report has made it clear that a heavy reliance on real estate, construction, and related finance is perilous. This economic foundation is too narrow by itself to sustain long-term resilience and competitive strength. Another way to put this is that the region should focus on taking advantage of its desirability as a place to live to create a broader range of industry diversity.

Of course, this is more easily said than done. The companies in Deschutes County are already more innovative and the economy more developed in higher-skill sectors than in similarly sized Washington County, Utah and Kootenai County, Idaho. The leap to compete with larger urban centers such as Boise and Boulder raises issues of scale, depth, skills, and access that must be resolved in order to compete on this higher plane.

If Deschutes County wants to take an ambitious step forward, there will have to be levels of cooperation not seen today—to increase efficiencies, support more mature clusters, maximize existing talent, bring in new talent, protect and promote the area's compelling mix of amenities, and build new research and educational institutions.

Below is a list of recommendations, some of which are already in circulation, that we believe will serve Central Oregon well. In most cases, recommendations apply to supporting the growth of existing businesses as well as to attracting new companies, and to the need for more skilled labor.

Housing: Deschutes County remains unaffordable for too many families and workers. Although housing prices have fallen significantly during the current recession, they still put the region at a competitive disadvantage, especially when area wage rates are considered. More affordable housing, more varied types of housing, and new or renovated housing located near existing downtowns and work locations will make it easier to retain and attract the workforce the region will need as it emerges from this recession.

Amenities: The example of Boise and Boulder point to the importance of developing amenities to attract skilled workers and their families. Boise's system of green spaces and trails is a crucial element in that city's ability to appeal to younger technology workers in particular. And Boulder complements its incredible open space and trails with a vibrant downtown, diverse cultural scene, and excellent restaurants. Communities in Central Oregon, Bend in particular, have the ability to compete at this level if there is a continued commitment to green infrastructure, downtown development, and a lively arts and entertainment scene.

Capital: Accessible sources of public and private capital, whether for operations or planned expansions, will help businesses through the recession and grow as the broader economic recovery develops.

Fiscal tools like Oregon's low interest loans and development bonds, enterprise zones conferring tax and fee abatements, and locally supported loan forgiveness programs tied to specific performance are all worth continuing and expanding as resources permit.

Some banks are lending little while others with healthier balance sheets are more active. Businesses need to know where to go for short-term capital needs. A bank index or some other way of ranking banks by their willingness and capacity to lend to business will help firms who need loans to keep their doors open and to reposition as the recession ends.

Securing capital for firms trying to significantly advance a concept or product requires skills and connections that many companies lack internally. New efforts like EDCO's Venture Catalyst program are designed to meet this need. PubTalk and the Bend Venture Capital conference are also good avenues to expose companies to investors. More generally, firms can use assistance to match their business strategy to the expectations of investors, and then to find the right investor.

Networks: Peer-to-peer business networks such as Opportunity Knocks and more industry-specific groups like Central Oregon Bioscience Consortium and High Desert Enterprise Consortium are critical to keeping businesses connected with each other and allowing for the exchange of ideas and talent. Regular meetings should be continued with the goal of pushing ambitious companies forward and sustaining an open culture of innovation and talent sharing.

A number of business owners mentioned material sciences as an emerging business cluster in Central Oregon, noting the spin-offs from Bend Research as well as newer entrants into this field. Developing such a business cluster could be an important competitive strength. We recommend convening a focused discussion to determine what building blocks are missing to overcome potential disadvantages such as distance from primary centers for this field, the need for a highly educated labor force, and the limits of available venture capital.

Collaboration: A number of firms admitted to being overwhelmed by the range of business organizations in Central Oregon and expressed a desire for more coordination between groups like the Small Business Administration, Chambers of Commerce in the region, and the Small Business Development Center. A common clearinghouse of information and coordination of activities will create a clear entry point for business new to the area or looking for assistance.

Coordination between firms also should strive to plug leaks in the local economy by creating a directory that will allow companies to search for services locally before sending business outside Central Oregon. This could be accomplished in part with a "support each other" campaign that emphasizes how local cooperation supports global competitiveness.

In the interviews we regularly heard that the lack of employment opportunities and connection to place for spouses impedes efforts to recruit skilled workers. Coordination between hospitality groups and business advocates should focus on the needs and interests, including jobs, culture, and recreation, of spouses. This type of support could evolve into a job bank or referral arrangement for spouses to minimize the downsides of a smaller labor market for professional couples.

Marketing: Central Oregon has a high profile surrounding its great recreation and tourism opportunities, high quality of life, and booming economy of recent decades. While Deschutes County remains strong on the first two counts, anyone paying attention knows that the economy is not

booming now and may have an unduly negative impression of what's happened to the region's economic strengths during the current recession. Interests in the county should counter any negative impressions with positive news about the economic environment in Central Oregon and how in many ways the region is more competitive now than at the peak the last business cycle.

A number of excellent marketing ideas were suggested by business owners in the interviews. These include: appealing to families with younger children who may be attracted to the wholesomeness of Central Oregon; reaching out to active professionals working in occupations or for companies that are relatively footloose; contacting “career harvesters” who have expertise as well as mature networks and may be looking for the high quality life offered in Deschutes County and willing to mentor younger entrepreneurs; and utilizing area people with specific talents/skills to reach out to professional peers around the country to market what Central Oregon has to offer.

Almost every business owner we talked to for this report visited Deschutes County first as a tourist, and there is evidence from around the West to confirm a connection between pleasure and business travel-stimulated entrepreneurial migration.²⁴ It makes sense to focus on this link by developing ways to target visitors as potential future business owners and workers in the region. Visit Bend is just embarking on this type of effort with its “Job-Creation and In-Migration Through Tourism” plan and needs resources to succeed.

Access: Compared to peers examined in this report, Deschutes County is isolated both geographically and by virtue of the air, rail, and highway connections to larger cities. Commercial air service is excellent for the size of the population base in Central Oregon, but its future cannot be taken for granted. Travel bank investments (in which travelers pre-buy tickets) and airline revenue guarantees are good ways to sustain or improve service. Diversifying air freight options will give companies more ways to move products in a time-sensitive manner. More convenient railroad cargo service schedules and depot locations, and more competitive pricing will help businesses with bulkier products. Passenger rail service to Portland also will make this important city much more accessible.

Education: Expanding higher education in the region is important for Central Oregon to wrestle with and come up with specific strategies to resolve. Almost every interview we conducted reaffirmed the interest in a larger university presence—for all the reasons that the University of Colorado is important to Boulder (skills, partnerships, idea incubation, spin-offs, innovative culture, etc.) Expansions of Central Oregon Community College and OSU-Cascades are possibilities, as are partnerships like OSU-Cascades has initiated with Cornell University’s School of Hotel Administration on hospitality training. Successfully increasing the intellectual capital of the community and skills in the workforce over the long-term may well hinge on this question.