

Is the Grass Really Greener in Other States?

An Oregon Perspective



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For the past seven months, Oregon's media has expressed the concerns of many people in Oregon that passage of Measures 66 and 67 would cause an outflow of companies and jobs from the state. The implicit assumption in these concerns is that the grass is greener on the other side of the fence; that Oregon is a uniquely bad place to be, and businesses would be better off almost anywhere else. Furthermore, the claim is that the passage of these two tax measures will prove to be the last straw leading to an exodus of jobs and firms. As the argument goes, it will be nearly impossible to recruit new companies to the state because they would prefer the environment elsewhere.

As members of the Oregon business community, we suggest that our colleagues take a look at the budgetary, economic and tax climate of other Western states before they jump to the conclusion that the situation here is so bad. The fact is that a lot of people in Washington, Idaho, California, Arizona, and Nevada would gladly trade places with

Oregon. Each state is facing the stresses of the economic downturn by raising taxes or fees and cutting services. Each state has odd but different tax elements that business people don't like. Each state has advantages that they use to appeal to businesses and problems or disadvantages that they don't want to mention. We believe that overall, however, Oregon is doing as well or better than our West Coast peers.

Weekly announcements show companies moving to Oregon, getting new venture funding, expanding facilities, and adding employees. It is not that we have a perfect tax structure, nor that there are policies that couldn't be improved. However, an objective review of what is going on in our neighboring states shows that they have problems, too. Given the alternatives, a review of the problems in the other states puts Oregon in a pretty good light. Let's take a look at what is going on in the rest of the region.

CALIFORNIA

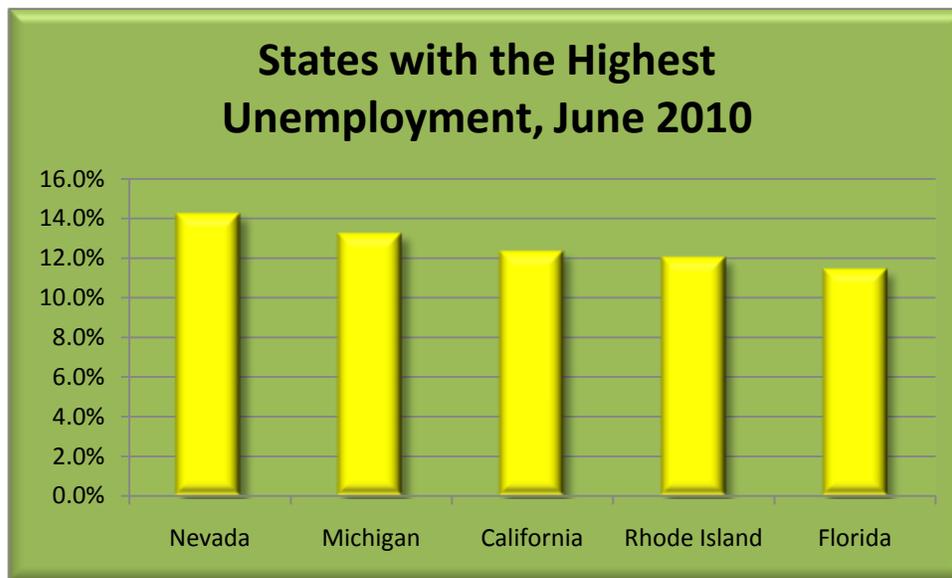
According to the Council on State Taxation (COST), California's taxes on business equal 4.7% of gross state product – more than 25% higher than Oregon's. California

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has an 8.25% sales tax.¹ California's income tax structure starts with lower rates than Oregon's, but ends with a 9.3% rate on income above \$50,000 and a 10.3% rate on income above \$1 million.

In spite of this, 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."² The Center on Budget and Policy Priorities also reported that "The University of California is increasing tuition by 32 percent."³ In comparison, Oregon announced its increased tuition will average 6% for this fall.

In May, Governor Schwarzenegger released a new budget for California to address a \$19 billion deficit for the coming year (roughly 20 % of projected spending). The cuts to education, social welfare, mental health, and health care programs are drastic. Since two thirds of the legislature must approve a new budget and the state cannot spend money without a budget, it is likely that chaos will reign for an extended period.



Source: United States Bureau of Labor Statistics, 2010

California's unemployment rate stood at 12.3% in June, the third-worst in the nation, and home foreclosures were the 4th highest in the country.

¹ California Department of Revenue web site.

² Sacramento Bee, May 4, 2010.

³ CBPP Update on State Budget Cuts, April 19, 2010. <http://www.cbpp.org/cms/?fa=view&id=1214>; Oregonian, June 4, 2010.

WASHINGTON

Washington recently passed a \$780 million revenue package which increased Washington's taxes on businesses. Washington increased its gross receipts tax (B&O tax) on service providers – doctors, lawyers, architects, accountants, etc. – from 1.5% to 1.8%.⁴ The basic gross receipts tax that applies to retail sales, wholesaling, & manufacturing is just under 0.5%⁵-- about five times as high as the approximately 0.1% tax on gross receipts that now represents the minimum tax for Oregon C corporations after Measure 67. The revenue package also included taxes on soda, bottled water, beer, candy and cigarettes.

Washington collects approximately \$2.5 billion annually from its Business and Occupation (B&O) taxes. The increase 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 GSP should increase by about 0.25%, based upon the current \$300 billion size of the state's economy.⁶

If you think Washington business owners spend their days thanking their lucky stars that they are not in Oregon, you should read trucking company owner Rolan Becker's op-ed in the April 26 Seattle Times:

"The 2010 Washington State Legislature has not been friendly to small businesses like mine...What legislators have accomplished feels more like a post-mortem report than a plan to increase economic growth and jobs. Washington is the only state that taxes gross revenue even when a business loses money. Legislators have removed important sales-tax exemptions, and added numerous new fees and utility taxes targeting certain industries. For my company, Becker Trucking, Inc., this represents a tax increase of more than \$100,000."



Oregon, says Tim Boyle, Columbia Sportswear President and CEO, has a "very friendly and easy-to-work-with state government."

Source: Why Portland?," Portland Development Commission video, 3/3/2010

⁴ Seattle Times, April 17, 2010.

http://seattletimes.nwsourc.com/html/localnews/2011635614_taxes18m.html

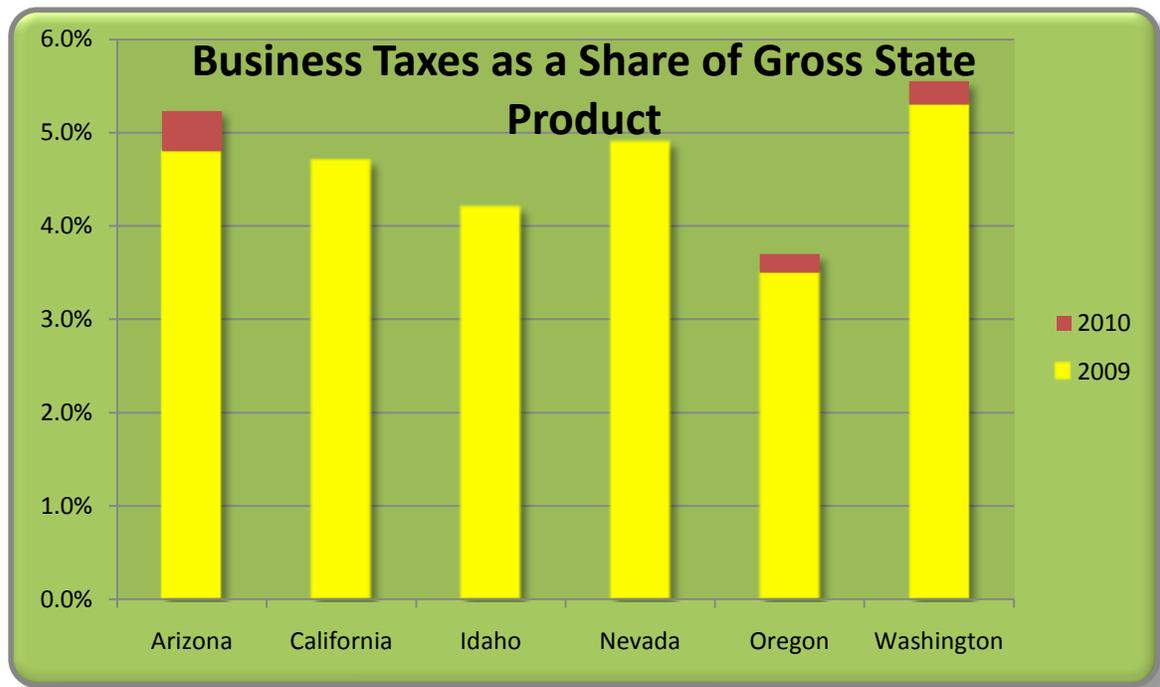
⁵ Washington State Department of Revenue.

<http://dor.wa.gov/Content/FindTaxesAndRates/BAndOTax/BandOrates.aspx>

⁶ Andrew J. Cassey, Ph.D., "The Recession and Export Trends in Washington State," School of Economic Sciences, Washington State University, June 2009.

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Washington's taxes on businesses, as a percentage of the state economy, were already the highest in the West. According to the Council on State Taxation, in FY 2009, Washington state and local taxes on business equaled 5.3% of gross state product – 50% higher than the figure in Oregon, 3.5%.⁷ The Oregon Legislative Revenue Office calculated last year that Measures 66 and 67 would increase taxes on business by 0.2% of GSP;⁸ thus, one would expect the Oregon figure to now be 3.7%. The chart below highlights state and local business taxes as a percentage of GSP for all of the Western states in our review, updated to reflect business tax increases passed since 2009 in Washington, Arizona and Oregon.



Source: "Total state and local business taxes: State-by-state estimates for fiscal year 2009", Council on State Taxation, March 2010, updated to reflect changes since FY 2009, as documented in this report.

Washington, of course, has no income tax, but recently a Survey USA poll showed 66% support for a Bill Gates, Sr. proposal to adopt a tax of 5 percent of the portion of taxable income that exceeds \$400,000 for couples filing jointly or \$200,000 for individuals. The tax would increase to 9 percent on any portion of income that exceeds \$1 million for couples or \$500,000 for individuals.⁹

⁷ Council on State Taxation, 2009 Business Tax Burden study, Table 6, page 12.

⁸ LRO Research Report on Measures 66 and 67, page 17. <http://www.leg.state.or.us/comm/lro/11-19-09%20RR%206-09%20Measures%2066-67.pdf>

⁹ King5.com, April 22, 2010. <http://www.king5.com/news/politics/Poll-Two-thirds-support-WA-income-tax-initiative-91845894.html>

Washington's 2010 tax package came in the wake of major budget cuts in the 2009 legislative session. According to the Sunshine Review, the State made \$3.3 billion in cuts, including \$1.2 billion in cuts to education.

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% 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%.¹⁰ 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 2010.¹¹

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% to 1.17% for the portion of payroll exceeding \$250,000.¹² The National Federation of Independent Business "lobbied against these tax increases, telling legislators that 'now was absolutely the wrong time to increase the tax burden on small businesses, as many are struggling just to keep their doors open.'"

In 2009, according to the Las Vegas Sun, Nevada cut K-12 and higher education by 6.9%. But much worse is to come: "Nevada

2010 Oregon Success Stories

ReVolt Technologies, a Swiss developer of energy-efficient rechargeable battery technology, is accelerating the development of its Portland-based North American headquarters. The company expects to employ 75 initially before growing to 250.

The head of SolarWorld AG's American operations said in late May that the company could double its Hillsboro manufacturing capacity. The company is currently adding 350 positions and will employ 1,000 by the completion of its expansion this fall.

Lacuna Inc. plans to expand its building products business in Roseburg with a new manufacturing plant and headquarters that will employ 100 people.

Nebraska-based Cabela's, a popular hunting, fishing and camping retailer, will open at Gateway Mall in Springfield, in a 58,000 sf space. Construction will begin in August, and will create hundreds of new jobs.

Bootmaker LaCrosse is doubling its Portland manufacturing plant to 59,000 sf, and adding a new 4,000 sf retail store in Portland.

¹⁰ Bureau of Labor Statistics, June 2010

¹¹ Sacramento Bee, March 1, 2010 <http://www.sacbee.com/2010/03/01/2572027/job-front-california-expected.html>

¹² NFIB 2009-10 Legislative Wrap-Up.

will be short \$2.5 billion to \$3 billion when the governor ... and Legislature begin work on the budget early next year.”¹³ The shortage is similar to the Oregon projection – but the context is not: Nevada’s current biennial budget is just \$6.3 billion, compared to \$14.4 billion for Oregon.¹⁴ Thus, proportionally, Nevada faces a much greater budget gap approaching 50% of its budget.

ARIZONA

Oregon isn’t the only state where voters approved tax increases to protect vital services. Facing a 16.5% decline in revenue (compared to Oregon’s 19%), and with the 2nd-highest home foreclosure rate in the country¹⁵, Arizona in 2010 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% 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%. In 2009, before the sales tax increase, Arizona’s taxes on business equaled 4.8% of gross state product – more than 25% higher than Oregon’s.¹⁶ The tax hike represents an approximate 9% increase in Arizona’s business taxes, which



“We think there are significant advantages to running our business from Portland. We tried to leverage those in our lean manufacturing processes, innovation, our speed to market. We can do much, much better than other folks who have moved their businesses to China or elsewhere.”

*-Jake Nichol, President and
CEO, Leatherman Tool Group,
Inc.*

*Source: Why Portland?, Portland Development
Commission video, 3/3/2010*

¹³ Las Vegas Sun, April 23, 2010. <http://www.lasvegassun.com/news/2010/apr/23/25-billion-deficit-best-case-scenario/>

¹⁴ Sunshine Review, http://sunshinereview.org/index.php/Nevada_state_budget

¹⁵ Pew Center on the States, “Beyond California: States in Fiscal Peril”, November 11, 2009, http://www.pewcenteronthestates.org/report_detail.aspx?id=56044.

¹⁶ Council on State Taxation, 2009.

would raise Arizona's business taxes as a percentage of Gross State Product from 4.8% to 5.2%.¹⁷

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.

The state is still suffering and Arizona's worst problems are still to come. The state will face additional economic difficulties in response to the passage of the anti-immigration bill SB 1070. Drastic cuts to state parks will also have an effect on tourism in the state. In spite of the job growth to date, the Associated Press reported on April 29 that Arizona Department of Commerce officials now "say the state will see an estimated decrease of 50,300 jobs in 2010, or a loss of 2.1%."¹⁸

IDAHO

While Idaho made a big splash about recruiting companies from Oregon, 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 5 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% of Oregon's (\$29.9k vs. \$38.8k).

According to COST, Idaho's taxes on business represent 4.2% of gross state product – compared to Oregon's 3.7%. Idaho's corporate profits tax rate is 7.6%, identical to Oregon's new permanent rate on profits exceeding \$1 million, but above the 6.6% for small companies with profits below \$250,000.¹⁹ Idaho has a 6% sales tax,²⁰ a point that is conveniently overlooked when the state tries to recruit companies from Oregon.

On March 25 the Spokesman-Review reported that legislators had passed a budget including "big cuts ... for schools - a total of \$128.5 million in cuts next year." The Spokesman wrote that "The budget bill would give schools \$1.214 billion in state general funds next year - 8.4 percent drop due to the removal of federal stimulus money that previously subbed in for general funds - and \$1.58 billion in total funds, an overall 7.5 percent drop."

¹⁷ Council on State Taxation, 2009

¹⁸ "Arizona Researched Predict Job Growth Next Year", Associated Press, 4/29/2010.

¹⁹ The Tax Foundation. <http://www.taxfoundation.org/taxdata/show/230.html>

²⁰ Idaho Tax Commission. <http://tax.idaho.gov/i-1040.cfm?pg=2>

Conclusion: Even with Its Quirks, Oregon is Doing Comparatively Well

Based upon an objective evaluation, Oregon is doing well in comparison to its neighbors. Make no mistake, with an unemployment rate hovering around 10%, Oregon is feeling the national recession along with everyone else. Yet there are positive signs of business acceleration.

Those who want to knock our business environment selectively focus on tax policies that put us at a disadvantage to other states. Yes, our income tax rate is high and our Kicker is just insane. However, our critics often overlook the fact that we do not have a sales tax or high payroll or gross receipts taxes and as a result our overall business taxes are the lowest in the region.

Frankly our fellow businessmen in the other states feel just as strongly about the problems they face as we do about ours. Businesspeople in every state of the region make statements similar to the quote from the owner of Becker Trucking, on page 4 of this report, about how the Washington legislature has not been friendly to business.

A quick look around
the West makes one
thing abundantly
clear: the grass is NOT
greener on the other
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When looked at in this context, where are the jobs and businesses supposed to go? California with its near total fiscal collapse? Business people claim that they want to move to Nevada to avoid income taxes, but will they still want to do that after Nevada resolves its 50% cut in state revenues with new taxes and massive cuts in services? How about moving to Washington to escape income taxes with a ballot measure likely to add income taxes to their high gross receipts and sales taxes? Arizona just added close to a billion dollars in new taxes, and the state is in turmoil due to its anti-immigration policies—a dynamic which will certainly make it difficult to recruit needed talent. Idaho claims that they offer advantages to Oregon business, but they have a corporate tax rate equivalent to Oregon's, plus they have a 6% sales tax. Idaho also suffers from a small market and limited industrial infrastructure. Frankly, the closer one looks at the other states in the region, the better Oregon looks.

It is also important that all participants in the discussion of our economic condition understand that taxes are just one factor in the decisions related to business location. For some people taxes are an important consideration. However, for many businesses they are not high on a very long list of factors as long as the overall tax

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burden is not too far out of line with the alternative locations. For example, Oregon frequently loses out to more expensive, higher tax sites like Seattle or Silicon Valley because of the industry infrastructure that exists there. At the same time, Oregon attracts companies because we have a low cost environment, a stable, educated work force, and core industry clusters that include software, sports clothing, metals and transportation, semiconductors, and now solar cells (which is a spin-off of the semiconductor cluster). We also have traditional strengths in agriculture, forest products and tourism. This is in addition to the strong appeal Oregon's quality of life has for those of us who already live here and those who wish they could.

It is also important to understand that the economy of a state at any point in time is highly dependent upon the industry it has at that time as well as the state's developmental policies. Two years ago Nevada was booming. Now it leads the nation in unemployment and home foreclosures. Those who think that taxes are the determining factor in a state's economic appeal must weigh the fact that Nevada has no income tax and this has not cushioned Nevada's economic collapse. Oregon's timber and wood products industry has been hurt by the housing collapse in other states dragging down our overall economy and there is very little the state can do to change that fact. We are benefiting from the rebound of the high tech sector in Oregon, but not as much as California or Washington which have bigger high tech communities.

We realize that there are those who are angry with the state of affairs in Oregon. We hope, however, that they will consider looking at our problems in context. Trash-talking our own state is not a smart economic development strategy. And it's not consistent with the facts. A quick look around the West makes one thing abundantly clear: the grass is NOT greener on the other side of the fence.

Appendix: 2Q 2010 Oregon Success Stories

Source: Portland Business Journal, April-June 2010

Below are sample stories from the Portland Business Journal that illustrate Oregon success stories. This list is not meant to be comprehensive nor does it include significant events from earlier this year or more recently.

“Columbia expects record sales in 2010” 4/30/10

Columbia Sportswear CEO Tim Boyle said he expects records sales in 2010. The company handily beat analyst expectations for sales and profits.

“Elemental Technologies raises \$7.1 million” 6/18/10

“The Portland-based startup, a developer of video processing software, disclosed the investment in a US SEC filing...Elemental in April released its latest product offering, Elemental Live, a video processing system that helps broadcasters and other content providers encode audio and video so it can be streamed live online.”

“Home Dialysis Plus raises \$50M” 6/18/10

“Private equity giant Warburg Pincus has agreed to invest up to \$50 million in Home Dialysis Plus Ltd. The Portland-based company makes a portable system for kidney dialysis. HD Plus employs 38.”

“Country Natural Beef partners with Chipotle” 6/18/10

“Country Natural Beef is edging into new markets in a nascent partnership with Chipotle Mexican Grill...Following similar purchasing decisions for its chicken and pork, Chipotle plans to serve more than 75 million pounds of naturally raised meat in nearly 1,000 restaurants.” CNB is a cooperative brand produced by 120 ranchers in 12 states. It was started in Eastern Oregon 24 years ago.

“A Public Plan” 6/18/10

Tigard’s Powin Corp is set to begin trading on the Over-the-Counter Bulletin Board. The 40 employee company is a contract manufacturer, making products ranging from fitness equipment and gun safes to wooden bedroom furniture. Last year Powin had nearly \$37 million revenue. “I’m getting older and the company’s getting bigger. I need more people. I need more money,” says founder Joseph Lu. The company plans to move into a new 70,000 sf Tigard headquarters later this year.

“Cabela’s plans Oregon store in Springfield” 5/7/10

Nebraska-based Cabela’s, a popular hunting, fishing and camping retailer, will open at Gateway Mall in Springfield, in a 58,000 sf space. Construction will begin in August, and will create hundreds of new jobs.

“Digimarc reincorporates as an Oregon company” 5/14/10

The digital watermarking company, which originally registered as a corporation in Delaware, has filed notice with the SEC that it has reincorporated in Oregon. “It’s substantially less expensive to be an Oregon corporation versus a Delaware corporation, saif CFO Michael McDonnell. The company expects to save \$100,000 a year.

“ESI posts first quarterly profit in 2 years” 5/14/10

Electro Scientific Industries saw its stock hit a 52 week high after posting sales figures of \$59.6 million for the quarter, a 53 percent increase from the prior quarter and 230 percent compared to a year ago. The Portland-based company sells laser systems that semiconductor makers and other electronics companies use in the manufacturing process.

“Newly public wind company Zxeres raises \$4 M” 5/21/10

Wilsonville-based Zxeres hopes to take an aggressive approach to market, with a goal of producing and shipping 80 wind turbine systems during the fiscal year ending 2/28/11.

“A revived LaCrosse builds factory, opens to retail store” 5/21/10

New 59,000 sf manufacturing plant more than doubles the Portland-based bootmaker’s existing space. New 4,000 sf retail store. Employs 450. Plant under construction and should be finished in the 3rd quarter.

Oregon is a catalyst for bringing together public and private business development partners and industries. There are 24,000 semiconductor manufacturing jobs in Oregon alone, with average annual wages topping \$101,000. The state is leveraging these strengths to attract manufacturers of photovoltaic components, and the strategy is working: Oregon has seen four large recruitments over the past year-and-a-half, projecting approximately 1,570 jobs. By next year, Oregon will have more annual photovoltaic production capacity than any other state in North America (more than 600mW). Source: Business Oregon, <http://www.oregon4biz.com/story.php?storyID=4>. 2010.

“Bill Gates’ cash boosts drug company Schrodinger LLC” 5/21/10
\$10 million investment from Cascade Investment LLC, Gates’ investment arm.
Software helps to eliminate some of the guesswork from traditional drug design.

“A date with growth” 5/21/10
Online calendar company dotCal targets \$50 million in sales within six years.
“There’s no reason I can’t create an organization based in Oregon that affects what people do all around the world,” says founder Dan Mendell.

“Bank seeks \$10M” 5/28/10
Bank of Oswego adopts an ambitious plan to double its size. The capital will allow the bank to grow assets to \$300 million and possibly funding new branch openings.

“Bioscience funds may signal uptick” 5/28/10
Veteran medical device entrepreneur Dick Sass is raising \$20 million for a new venture capital fund designed to bring promising medical startups to market. The effort coincides with another \$10 million bioscience fund planned by Portland’s Reference Capital.

“Tripwire Inc announces IPO” 6/4/10
Portland-based provider of security and compliance software seeks to raise \$86 million. Revenue has grown sharply since 2007—more than 50% to more than \$74 million in 2009.

“Green building block maker plans 11 plants, one in Oregon” 6/4/10
Roseburg-based Lacuna Inc announced last week that it plans to expand in Roseburg with a new manufacturing plant and headquarters that will employ 100 people. APEX block is made from recycled expanded polystyrene, and can replace wood and concrete block as a building material.

“Fuel-cell maker ClearEdge signs a \$40 million deal” 6/11/10
Hillsboro based with LS Industrial Systems to distribute 800 of its hydrogen-powered fuel cells throughout Korea in a deal valued at \$40 million.

“Precision stock soars as aircraft sector rallies” 4/9/10
Shares of Precision Castparts Corp. have spent the last week on the verge of \$130, the highest point in nearly two years.

“Recent leases may signal uptick in industrial market” 4/9/10
United Stationers Supply Co.’s new 195,510 sf lease nearly doubles their presence in Portland. Lease continues a trend that started in late 2009, when a series of larger deals helped reverse a seven-quarter slide.

“Genentech expands operations” 4/9/10

Drug manufacturer begins production at its \$400 million Hillsboro campus. Already employs 250, expects to add 50 more employees as it ramps up manufacturing.

“Key continues Portland growth spree” 4/2/10

KeyBank plans to open six new branches throughout the year.

“Tualatin ranks high for corporate relocations” 4/2/10

Corporate relocation specialist John Boyd Jr of the NJ-based The Boyd Co visits Oregon to talk about the business climate here. Tualatin ranked no 3 out of 15 Western cities covered in the report—prior to Washington and Arizona tax hikes.