

Baloney

ECONOMIC DEVELOPMENT SMOKE AND MIRRORS

A recent audit of Business Oregon, the state's economic development department, will likely generate more local debate about economic development incentives. I spent about 15 years working for the state economic development department and, after learning about the state audit, my first reaction was: It's about time.

While I know from experience that incentives are an important business recruitment tool, in my time at Business Oregon I saw a lot of abuse of incentives and very little accountability. The audit was right on the mark. Let's hope that it does some good. Accountability for incentives has been way overdue at Business Oregon.

A Saturday morning at Eugene's Full City Coffee is a bustling scene with multiple coffee groups engaged in conversation around current happenings in our town. On this particular Saturday, a lot of the buzz was about the decision by Broadcom to sell the former Hynix site in west Eugene, and about the \$21 million economic development incentive package Broadcom had received.

I heard mixed feelings about the Broadcom deal. Some were disappointed the deal fell through and that jobs won't be created. Some were opposed to offering up the \$21 million in property tax abatements and incentives in general. Others expressed confusion about the \$21 million, wondering if it would stay with the site for another buyer.

I was amazed to learn the tax incentive question had come up at a recent City Club of Eugene meeting and at least one city councilor was unable to answer it. A councilor who recently voted on the proposal to expand the enterprise zone tax abatements from three years to five, worth an additional \$7 million, was apparently clueless about how the program actually works. I was not surprised.

The short answer is, of course, no, it won't stay with the site. The \$21 million number is purely hypothetical, based on a guesstimate of how much the value of the property would increase assuming a Broadcom investment in the \$300-\$400 million range.

With the announcement Broadcom was putting the property on the market, the enterprise zone benefits would be zero. Broadcom will continue to pay the half million dollars in property taxes each year until it finds another buyer. But that will not be easy.

A *Register-Guard* editorial on the subject said that "finding a buyer will be onerous, perhaps frus-



trating, but local officials are gearing up for the job."

That of course begs the question, how do these local economic development officials "gear up for the job?"

The short answer is they don't. Saying they do is just economic development smoke and mirrors.

There is really nothing the local players can do to find another buyer. Saying they can furthers the myth that a community can actively recruit companies to relocate here. The idea that through some magical process a community like ours can go out and find a company that may be considering moving or expanding and then convince them to come here is nonsense.

Business recruitment for large projects like Broadcom is done by the state, not the local community. The state actively promotes Oregon as a location for business expansion.

Locally, the term "business recruitment" is just a name for any new business that moves into our community. No one actually went out, found the prospect and recruited them to come here. It's just not economically feasible for a community to do that. It's barely feasible at the state level.

Business recruitment is about being ready for that time when a company comes looking. After a business is recruited by the state, the state sends out a list of criteria the firm needs for their facility. The firm itself is often anonymous at this stage. If it's good, then the local economic development team responds quickly and accurately to the state request. This is the first opportunity to "sell" the community.

There is usually more than one community involved in the search for an expansion location, so our local economic development team has its second opportunity to "sell" our community. Every commu-

nity puts on its best face and touts livability, good schools, affordable housing, skilled workforce, reliable infrastructure, etc.

Often, these recruitment opportunities are managed by site selection consulting firms. Their primary job is to reduce the number of site options to a manageable number, maybe two or three. So the initial challenge for a community is to just stay on the list.

This is where incentives come into play. Hardly ever will a community stay on the list without some significant local incentives, and enterprise zones are often a requirement. Other incentives like workforce training assistance and local cash also help to stay on the list.

While it is true that companies do not locate just for the incentives, they often will not come without them. And, when it comes down to two or three sites in the running, incentives can be the deciding factor.

All things being equal, a company will likely choose the community that offers the best incentives package, or at least a very good one. One reason is, of course, the money. But another reason is that it is a way for the community to say we really do want the company to locate here.

That's how "business recruitment" usually works. When local promoters talk about the need to go out there and "recruit" businesses to move to our community, it's just a bunch of baloney.

It's totally unrealistic to think that our community is going to market itself in any meaningful way to find firms looking to move, and then convince them to locate here. That kind of an effort would require a marketing budget that would far exceed any community's ability to fund it, or justify it with results. What does make sense is for our community to prepare for when opportunity knocks.

The best recruitment strategy is to be a community that is truly a great place to live. But you still need incentives. That is, if we actually do want businesses to come.

So, are we open for business to anything, to anyone? Are there companies or even industries we do not want in our community, or others that we would favor? The existing economic development recruitment system does not offer that kind of discretion.

Bob Warren retired in 2012 as the regional business development officer for Business Oregon for Lane, Lincoln, Linn and Benton Counties. Prior to that, he was senior policy advisor on forest policy for Gov. Barbara Roberts and director of the governor's Forest Planning Team and district aid and natural resource advisor for Congressman Peter DeFazio.



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