

# Enterprise: Program could cost state more than \$75 million

Continued from Page 1A

Businesses must maintain employment levels and comply with other conditions in return for the tax exemptions.

"This isn't just recruitment," said Warrenton City Commissioner Henry Balensifer. "This is encouraging people to buy new, to build up, to renovate."

The tax breaks could help Pacific Seafood Group rebuild a fish processing plant that burned down two years ago in Warrenton, or lure investors to distressed areas such as North Tongue Point.

"I think we're looking at it as kind of a strategic tool to enhance business development opportunities in our county and on Port property," said Michael Weston, the Port's director of business development and operations.

Astoria Mayor Arline LaMear and City Councilor Cindy Price, who was initially critical of an enterprise zone, both said this week that the city might look more positively toward a collaboration.

"So it could be very helpful and it might be a good tool for our toolbox," Price said after doing more research on the concept.

## Policy tools

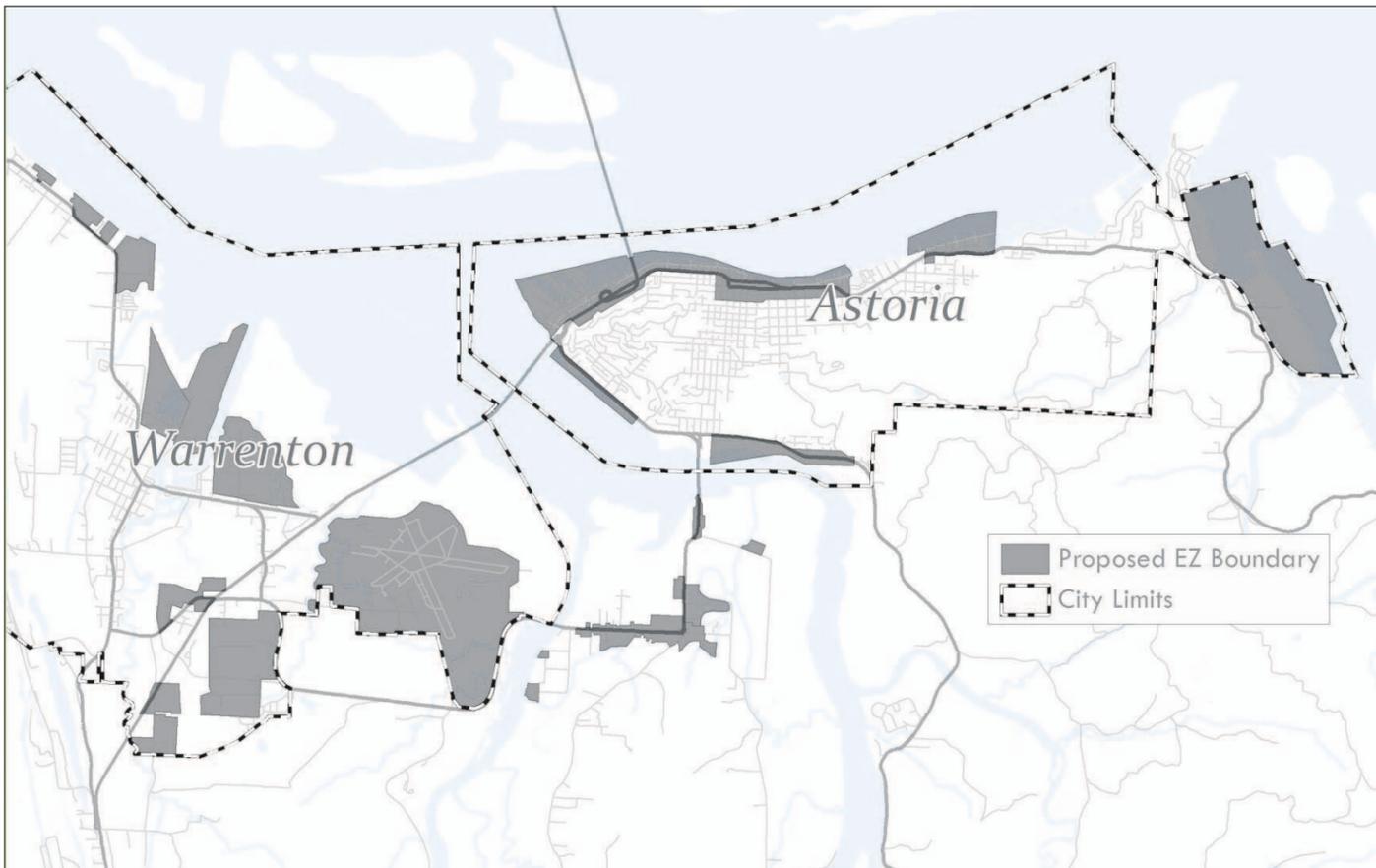
Enterprise zones have long been policy tools of the federal and state governments to attract business investment through tax incentives, particularly in economically distressed regions of the country.

In Oregon, there are 66 enterprise zones, according to the Oregon Business Development Department, 53 in rural areas and 13 in urban centers.

The enterprise zone program is expected to cost the state more than \$75 million from 2013 to 2015, according to Oregon Department of Revenue projections.

Studies have shown mixed results for enterprise zones and difficulty in tracking whether tax breaks translate into measurable economic gains and job growth.

A 2009 report by the State Legislative Revenue Office



Courtesy Clatsop County GIS Specialist Alejandro Bancke

A portion of the proposed Clatsop Enterprise Zone.



The North Coast Business Park is in the foreground of this photo taken soon after Costco was finished.

found that, in a short-term analysis, firms receiving property tax exemptions in enterprise zones had larger employment and payroll gains than in comparison areas.

Over the long term, poverty and unemployment rates declined more in enterprise zones than in comparison areas, but household income

and other metrics did not show similar positive trends.

Governments, the report found, have to wait seven years on average to recover the undiscounted value of the property tax exemptions. The report also found that the cost of property tax breaks for every new full-time job was about \$11,200 on average.

Other researchers have also documented the relatively high cost per job created in enterprise zones, questioned whether businesses would not otherwise expand without tax breaks, and criticized the lack of data to accurately measure the financial return to governments.

## Uneven record

Anecdotal examples of businesses that appear to have handsomely benefited from the tax incentives have also blemished the enterprise zone program.

The Oregonian reported this week, for instance, that several out-of-state companies with data centers in Hillsboro have enjoyed tax breaks but have had an uneven record of job creation. The newspaper found that a few firms accounted for most of the new jobs. One firm received a \$775,000 property tax break

for the 2013-14 tax year but listed just one full-time job.

Some in Clatsop County have a sour impression of enterprise zones because of the history with the Georgia-Pacific Wauna Mill. The mill received property tax breaks for a new paper machine through the Lower Columbia Maritime Enterprise Zone, was later disqualified for not meeting minimum employment requirements, and then contested the mill's property tax assessments. The mill reached a \$2.5 million settlement with Clatsop County and other taxing districts in 2012.

Others counter it is unfair to judge enterprise zones based on a few examples or solely through the prism of job creation, which does not reflect the multiplier effect of business expansion.

Chuck Daughtry, the executive director of the Colum-

bia County Economic Team, who oversees the county's enterprise zones, believes the program has helped the county compete with Washington state and other rivals for business development.

"I guess there could be arguments as to whether or not the incentive actually is the thing that tips the business to make the investment, but it certainly makes us very competitive," he said.

If a new Clatsop Enterprise Zone is approved by the state, Balensifer said Warrenton and the other jurisdictions involved will have to creatively market the region and seek business opportunities beyond simply advertising the potential tax incentives.

"Mark my words on this: if we say, 'Here's an enterprise zone, now come and visit us.' This will fail," he warned. "It will be a waste."

# Smithart: Inn had recently been listed for sale at \$1.2 million

Continued from Page 1A

in July, did not make himself available for an interview.

He has leased the Astoria Riverwalk Inn, a former Red Lion Inn, from the Port since March 2012. He pays the Port \$10,000 a month in rent May through October; \$5,000 in monthly rent November through April; and 10 percent of his gross revenues.

"There's also no valid reason why he hasn't supplied the revenue reports like he's supposed to each month," Grey said, adding that Smithart had owed the Port his revenue reports dating back to March or April, before bringing them in Friday. The

Port is now poring over them to figure out exactly how much he owes.

Grey and Knight said Smithart has provided vague reasons for falling behind, such as tight cash flow and a lack of time.

"We're hoping to come to an amicable solution really fast, to protect the Port's interest," said Knight, adding that the first choice is to find another operator for the hotel.

## Interest in hotel

Smithart had recently listed the Astoria Riverwalk Inn for sale at \$1.2 million. After comments from former Port Commissioner Jack Bland

that Smithart was looking to sell the hotel, Smithart said he was looking for investors in the hotel and had no intention of leaving.

Ganesh Sonpatki, who owns several budget hotels in the Portland area, told the Port in October he was interested in buying Smithart out of the hotel, developing it into a budget lodging and possibly restarting the former Seafare Restaurant & Lounge, located between the hotel and the Chinook Building above the West End Mooring Basin.

Knight said the Port has heard interest but can't field offers to operate the hotel while Smithart still has an

active lease. A representative from the Astoria Riverwalk Inn asked the Port for extensions to avoid eviction, he said. But the Port denied his request, Knight said, because of Smithart's history of falling through on his financial obligations.

## History

The Port Commission in March 2012 sided with Smithart and partner Seth Davis' proposal to reopen the hotel over a competing proposal by the significantly more well-off Williams/Dame & Associates, which wanted the Port to tear the Red Lion down before it would build a new hotel. It gave Smithart and

Davis a five-year lease running through most of 2017.

In October 2012, it voted to give Hospitality Masters an option to extend another five years. At the time, Smithart stated that his and Davis' intent was to be around at least 30 to 40 years.

In August 2013, Smithart, by that point alone in Hospitality Masters, received an eviction notice from the Port. He narrowly avoided it after falling behind on rent and revenue-sharing, in addition to being behind on transient room taxes with the city.

In November 2013, the Port Commission voted 3-2 to give Smithart a \$30,000-a-year break on

rent, lowering it to \$5,000 a month in the winter months, provided he invest the saved rent into the Port's building and provide it an accounting of the improvements. Grey said the Port's been shown evidence of improvements, but not of how much.

At the time of the lease amendment, Smithart had recently caught up after falling as much as \$40,000 behind on payments with the Port in 2013. That same month, he worked out a 30-day repayment plan with the city of Astoria, to which he still owed about \$48,000 in transient room taxes at the time.

# Port: 'We are in the black for the first six months'

Continued from Page 1A

fired Colleen Browne, present on the Port's profit-and-loss statements, comparing the actual financial performance with what was adopted in the Port's 2014-15 budget at the end of June.

"We are in the black for the first six months, even with everything that's been going on," said Grey, referencing a net income of \$41,900 between July 1, when the 2014-15 fiscal year started, and the end of 2014.

Commissioners praised the work of Grey and other accountants brought in to help. Each month, Grey said, the Port will tighten its financials more and more, eventually adding a cash position.

## Auditing advice

The Port is still trying to put together an audit for its 2013-14 fiscal year, which was due by Dec. 31, using accounting firm Moss Adams.

On Tuesday, accountant Todd Kimball of CFO Selections detailed the Port's issues and what his firm is doing to prepare them for their audit.



Jim Grey



Jim Knight



Mike Weston

The reason the Port is in its current situation, Kimball said, is a worst-case scenario in transitioning between accountants Browne and Grey with no sharing of knowledge. There were inadequate policies and procedures in place, he added, and a new accountant, Grey, coming into a high-volume atmosphere with a high learning curve.

He said CFO Selections is performing three tasks: reviewing and adjusting the Port's accounting records between July 2013 and June 2014 to ensure their accuracy; developing best practices and policies through an upgraded accounting system and possibly a property management system; and helping the Port implement changes.

Commissioners praised the

work of Grey, Kimball and Barbara Blue of Bussert Law & Associates to help fix the Port's finances.

## In other news:

- The Port Commission unanimously agreed to amend the lease of the Marine Spill Response Corporation, which is vacating office space in the Pier 2 warehouse in exchange for space at the Walter E. Nelson building on Gateway Avenue, across from the Port's old offices.

- Clatsop County Manager Scott Somers presented about the Clatsop Enterprise Zone, an effort to designate areas where new business developments could be exempt from taxes for three to five years. Several Port properties proposed for inclusion are the

central waterfront, East End Mooring Basin, North Tongue Point and the Astoria Regional Airport. The Port will be given a resolution relating to the enterprise zone at its March 3 meeting. Somers said the application for the zone, for which he's been seeking support from the Port, Astoria and Warrenton, is due April 10.

- Mike Weston, director of business development and operations, reported that the Port expects more than 31,831 people arriving on 18 cruise ships this year, including eight in the spring and 10 in the fall. The first ship, the Crown Princess, is scheduled to arrive April 30. Find the full 2015 schedule at <http://bit.ly/1vk1EiF>

- Weston reported that the Port is now engineering portion of a project to repave Runway 1131. The Port recently received a \$480,000 Connect Oregon V grant to cover the 10 percent local match of a \$4.5 million Federal Aviation Administration grant the Port already received to pave 75,000 square feet. Engineering will be complete by mid-April, said Weston, followed by soliciting bids for the project, which would start June 30.

Visit us online at  
[www.DailyAstorian.com](http://www.DailyAstorian.com)



The February edition  
available at a newsstand near you



Coast River  
BUSINESS JOURNAL  
crbizjournal.com