

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: February 8, 2012

TO: Board of Commissioners

FROM: Patrick Quinton, Executive Director

SUBJECT: Report Number 11-85
Update on the Advanced Manufacturing Cluster and the Portland Enterprise Zone Program

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

None – Information only.

SUMMARY

This briefing is intended to provide the Commissioners with an update on the Portland Development Commission's (PDC) Advanced Manufacturing Cluster work and its Portland Enterprise Zone Program. Also, staff will briefly discuss the status of other related work including our efforts to address the shortage of industrial lands in the region and brownfield development initiatives. Finally, staff will highlight some of the specific benefits that are realized by Portland residents, particularly those in N/NE Portland, as a result of our collective work in these areas.

The Advanced Manufacturing Cluster

Advanced manufacturing is the cornerstone of the Portland and Oregon economies. With salaries at 25 percent above the regional average, the advanced manufacturing cluster is critical to the creation and retention of good paying jobs and a good standard of living for working families.

Design and engineering competency is a primary strength of our region's advanced manufacturing cluster. This specialty affords many of our large manufacturers a greater efficiency over other competitors that separate their design and manufacturing operations, and therefore increases revenues.

Despite these strengths, the cluster is facing challenges in a number of areas including a declining supply of labor with the necessary skills to fill available positions, research and development sourcing, the need for continuous improvements in efficiency, and securing dependable supply chains.

The Portland Enterprise Zone Program

The Portland E-Zone program allows firms that will be making a substantial new capital investment a waiver of 100% of the amount of real property taxes attributable

to the new investment for a five-year period after completion. Land and existing machinery or equipment is not exempted; therefore, there is no loss of current property tax levies to local taxing jurisdictions.

In return for the property tax abatement, E-Zone companies must pay to PDC a portion of their tax abatement savings in the form of “Community Contributions.” These funds are then used to train and hire local residents and to fund other programs that benefit the N/NE Portland community, small businesses, and neighborhoods.

Since 1996, Portland’s Enterprise Zone (E-Zone) program has leveraged more than \$1 billion in private investment and has created and retained more than 5,000 full-time, quality jobs. It is one of Portland’s most powerful tools to help attract major new investment to the City and is often the *only* tool we have that is significant enough to allow us to compete with other regions in the U.S.

BACKGROUND

The Advanced Manufacturing Cluster

Manufacturing and its Impact on the National Economy

Manufacturing is an integral part of the U.S. economy as well as of every leading economy in the world. According to the World Bank, the United States produced more than 19 percent of global manufacturing in 2008, even though our population represents less than 5 percent of the world’s population. The United States is the world’s largest producer of manufactured products, producing 18 percent more than the second largest producer – China - a country with a population that is four times greater than that of the United States. U.S. manufacturing production is also helping to lead the nation’s economic recovery from the recession.

The majority of our advanced manufacturing companies are traded sector firms, selling a high percentage of what they produce outside of their respective regions and bringing revenues from those sales back to the region. Manufacturing also has a higher multiplier impact than other sectors of the economy. According to the National Association of Manufacturing, for each \$1 produced in manufacturing, another \$1.43 is created in other sectors of the local economy, twice the \$.71 multiplier for services.

The Impact of Manufacturing on the Local Economy

Manufacturing is crucial to our region and state as well. Oregon ranks second in the U.S. by manufacturing's percentage of the state's GDP. The manufacturing GDP for the state was \$38.75 billion in 2010 – accounting for 22.3% of Oregon's economy. This marks an increase from 2008 when Oregon ranked fifth in the U.S. with manufacturing GDP at \$30.2 billion or 18.7% of Oregon's economy.

Oregon holds special honors in that it ranks #1 in the U.S. for the lowest production cost per dollar output, and also ranks #1 in the U.S. for production cost-efficiencies according to the American Institute for Economic Research.

Additionally, the local manufacturers contribute enormously to wealth creation of Portland residents through the wages and benefits offered by these employers. The chart below summarizes the employment and salary levels found in the four (4) primary industry sectors comprising the advanced manufacturing cluster. Also note the significant growth that the cluster achieved between 2010 and 2011.

Advanced Manufacturing – 2010 Tri-County Area

Industry Sector: Manufacturing	Actual Employment June 2010	Actual Employment June 2011	Change 2010-11	Payroll 2010	Average Pay 2010	# of Firms
Primary Metals	4,972	5,246	+9.5%	\$334 MM	\$65,738	37
Fabricated Metal	9,389	10,220	+9.2%	\$454 MM	\$48,037	447
Machinery	5,522	6,144	+9.0%	\$234 MM	\$72,998	64
Transportation Equipment	5,726	6,177	+9.3%	\$344 MM	\$60,370	102
Totals	25,609	27,787	+9.25%	\$1.36B	\$61,785	650

Portland’s advanced manufacturing cluster is driven primarily by businesses involved with metals and transportation equipment, often utilizing high technology in the design and production of their products. The region’s leading manufacturers include Boeing, Columbia Steel, Daimler Trucks North America, ESCO, Evraz, Gunderson, PCC Structurals, Schnitzer Steel and Vigor Industrial.

Cluster Strengths and Challenges

Through a series of one-on-one meetings, and five larger meetings with more than 30 leading manufacturers, staff learned that Portland’s advanced manufacturing cluster companies are typically very competitive and are experiencing moderate to high degrees of growth and success. Nevertheless, the cluster does face challenges that could threaten its ability to sustain the gains it has achieved to date.

Strengths in the Advanced Manufacturing Cluster

- Engineering and Metallurgy: Engineering and metallurgy play a major role in this region’s manufacturing cluster. In fact, some describe our region’s manufacturers first as engineering firms and second as manufacturers.
- Lean Manufacturing and Efficiency: Many of our advanced manufacturers have incorporated lean manufacturing improvements into their production processes which increase efficiency and provide competitive advantages.
- Competitive Specialized Products: Some items produced in this region are very large and difficult to produce competitively offshore. This provides regional

manufacturers an advantage on price, transportation costs, delivery time, and quality. Examples include rail cars, barges, street cars, and even larger infrastructure items for bridges, dams and oilrigs.

- Supply Chain: Our cluster has valuable existing supply chain synergies. A large number of our manufacturers supply regional companies such as Boeing, Daimler, PCC Structural and other large purchasers.
- Product diversification: With our competencies in advanced manufacturing, there are opportunities to help companies expand into new product lines to support our clean technology industry, such as in the manufacture of wind turbine blades, and to export these products and services globally.
- Reputation: In our region, an impressive number of Portland companies are recognized anecdotally by industry peers as being in the top 10% of their industry, worldwide. This solid reputation drives national and international sales of products and parts produced by Portland advanced manufacturing companies. As a prime example, PCC Structural is the primary supplier of jet engine blades to the more than 100 engine manufacturers located throughout the world. The company's customers include world-renowned companies such as Rolls-Royce, Pratt & Whitney, GE and Westinghouse.

Challenges in the Advanced Manufacturing Cluster

The region's advanced manufacturing companies have identified workforce as being, by far, the number one overall challenge for the industry, followed by the need for research and development resources, continuous efficiency improvements, and regional supply chain development.

To respond to these industry needs, PDC staff is undertaking the following efforts:

- Workforce: At any given time, our manufacturers have workforce shortages that range between 500 – 5,000 workers. This is a result of an aging workforce and the perception that jobs in this industry are not good paying jobs. In response, staff is working closely with our partners at Worksystems Inc. and the community colleges in the region to: (1) connect experienced job seekers and employers through targeted job fairs, (2) inform companies about the various resources available to find specific skilled workers, (3) work with community colleges and other institutions to tailor training programs to meet industry needs, and (4) promote career development activities that provide information about manufacturing careers to young people throughout the region.
- Research & Development (R&D): Manufacturers are responsible for more than 70 percent of all private-sector R&D, which ultimately benefits both manufacturing and non-manufacturing endeavors. Furthermore, there is an indisputable connection between R&D and the ability to maintain jobs in the U.S. and in the region. Staff is working with the Manufacturing 21 Coalition to help establish the *NW Collaboratory*, a partnership with five (5) regional universities that will focus on making effective R&D resources available to local

manufacturers. This effort is also one of the components of the federal Jobs and Innovation Accelerator Challenge (JIAC) grant which was recently awarded to the region.

- **Efficiency Improvements/Lean Implementation:** Although many of our region's manufacturers have embraced lean principles, improving operating efficiencies requires ongoing implementation. To help in this regard, PDC maintains a contract with the Oregon Manufacturing Extension Partnership (OMEP) where we offer to pay 50% of the cost of lean training tailored to each specific participating company. To date, PDC has assisted twenty-eight (28) companies under this program.
- **Supply Chain:** As part of the Brookings Metro Export Initiative and our export plan, we are employing a number of initiatives to help increase our cluster's ability to sell their products worldwide. These include: (1) partnering with the Pacific Northwest Defense Council to expand the use of the NW Connector database, a regional, web-based repository of companies that do business primarily in the manufacturing and defense sectors, (2) recruiting local companies to participate in both domestic and international industry trade shows, and (3) co-sponsoring a series of local networking events to connect suppliers with-manufacturing companies; and (4) helping advanced manufacturing companies identify new product line and business opportunities with an emphasis on the clean tech industry, our acumen in lean manufacturing, design and engineering.

Portland's Enterprise Zone (E-Zone) Program

Objectives of Portland's E-Zone Program

As mentioned above, Portland's E-Zone program offers companies that are making a substantial new capital investment, a five-year abatement on the property taxes that would have otherwise been levied on the new improvements. However, the E-Zone program also has numerous other objectives which were put in place to benefit the businesses and residents in and around the E-Zone boundaries. These are spelled out in the *City of Portland Enterprise Zone Policy*, which was adopted by the Commission and City Council in January 2008, and most recently amended on May 5, 2010, and include the following:

- Encourage business development and expansion in the Portland E-Zone;
- Increase the health and growth of small businesses in the Portland E-Zone through a "multiplier effect" that results in participating E-Zone companies contributing to further expansion and addition of new businesses to the area;
- Achieve a high rate of return on the community's investment in Portland E-Zone tax abatements;
- Increase the income and reduce the number of unemployed and underemployed residents in N/NE Portland; and

- Link local residents with quality jobs.

To accomplish these objectives, the City requires that the each E-Zone company contribute funds, amounting to 15% of their total property tax savings, to PDC in the form of “Community Contributions”. These funds are then used by PDC to provide job training to area residents in support of the E-Zone companies that are investing in the City, and to support other small businesses in and near the E-Zone. Over the next six years, we anticipate receiving up to \$3.5 million in Community Contributions that will be put back into these services.

Overseeing the expenditure of the Community Contributions is a newly-reconstituted E-Zone Advisory Committee. This eleven-member Committee is tasked to make recommendations to the PDC Executive Director regarding how these funds are spent. Membership on the Committee is spelled out in the amended *City of Portland Enterprise Zone Policy* as follows:

- 3 representatives from current E-Zone companies
- 2 small business owners
- 4 representatives from community-based workforce training providers
- 2 representatives from community-based organizations advocating for businesses

In addition to the Community Contributions, the program requires that participating companies submit a “local procurement plan” which outlines their goals to buy as much of their needed goods and services locally as possible. This plan must be submitted to and approved by PDC.

Recent E-Zone Successes

The original E-Zone Program, known as the *N/NE E-Zone program*, was established in 1996. Since establishment, more than 50 companies have participated in that program. Of those, sixteen (16) companies still have projects under abatement, with the last one scheduled to complete its abatement period in 2015.

Upon expiration of the N/NE E-Zone in 2007, a new designation was approved in 2008. This re-authorization, known as the Portland E-Zone Program, currently has ten (10) companies in the program. These 10 companies are expected to invest an estimated \$475 million in new capital improvements.

From 2009 to today, 10 companies with 12 new projects are (or will be) investing in the Portland E-Zone. The following table highlights investment details by project:

Companies Enrolled in Portland E-Zone since July 1, 2009				
E-Zone Company	Est. Investment	Est. Abatement	Jobs	Industry
Rivergate Calbag	\$ 9,850,000	\$ 811,812	3	Manufacturing
Calbag Metals	\$ 4,000,000	\$ 258,944	5	Manufacturing
United Stationers	\$ 4,060,000	\$ 323,206	12	Distribution

Companies Enrolled in Portland E-Zone since July 1, 2009				
E-Zone Company	Est. Investment	Est. Abatement	Jobs	Industry
YoCream Intl. 2	\$ 12,235,000	\$ 621,365	25	Manufacturing
Service Steel 2	\$ 2,314,245	\$ 146,376	16	Manufacturing
Subaru	\$ 20,000,000	\$ 1,049,950	3	Distribution
Rentrak	\$ 4,910,000	\$ 337,550	222	Software
MEMC	\$ 37,198,000	\$ 2,530,000	19	Clean Tech
SoloPower	\$ 348,000,000	\$ 18,987,865	481	Clean Tech
Laser Profile LLC	\$ 400,000	\$ 25,000	2	Manufacturing
Columbia Biogas	\$ 32,000,000	\$ 2,164,000	15	Clean Tech
ASE Supply	\$ 400,000	\$ 24,000	2	Distribution
Est. Totals	\$477,506,245	\$ 27,391,923	805	

Over the last two years, the E-Zone program has been active and flourishing. Even during the recession, the E-Zone program continues to be a bright spot in our local business retention and recruitment efforts. Since 1996, the City's E-Zone programs have leveraged more than \$1 billion in private investment and have created and retained more than 5,000 full-time, quality jobs.

In 2011, facing expiration of the State's E-Zone authorization in 2012, PDC, the City of Portland, and other cities, counties, and economic development organizations around the state, helped push through a reauthorization of the statewide E-Zone Program by the State of Oregon Legislature until the year 2025. This was extremely important since, without it, companies would not have assurance that the tax abatements would be available, hence jeopardizing their investment decisions.

Other E-Zone Benefits

In a snapshot of data collected from FY 2009-2010, active Portland E-Zone companies contributed the following benefits to Portland residents and the economy:

Jobs: Active E-Zone companies have/will create or retain nearly 3,000 family-wage jobs.

Local procurement: Portland E-Zone companies combined spent an estimated \$60,000,000 in local procurements in Portland.

Wages: 85% of the jobs in each participating company must be at basic wages that meet or exceed 150% of the Oregon minimum wage after one year of employment. This equates to annual salaries of approximately \$27,000 per year. However, the average salary of all E-Zone companies is actually more than \$47,000 per year, with manufacturing wages over \$61,000.

Company Benefits: In addition to excellent wages at E-Zone companies, on average, employees received \$7.35/hr in dollar value from company benefits (401k, medical, dental, etc.).

2012 Priorities

In 2012, staff will continue to advance the Commission's work with the Advanced Manufacturing Cluster and the Portland E-Zone program. Below, is a listing of some of our priority efforts for the next 12 months:

- This spring, staff will be forming and convening a new Advisory Committee for the Advanced Manufacturing Cluster. Members of this Committee will be drawn from both large and small manufacturers representing a cross-section of the industry and will meet quarterly. This Committee will focus on priorities including: our export strategy; product diversification; marketing and branding through collaboration with Greater Portland, Inc.; and, improving competitiveness through research and development partnerships with higher education.
- On February 29, 2012, staff, partnering with the Manufacturing 21 Coalition, will sponsor a Manufacturing Research & Development Forum. This forum will feature the NW Collaboratory and will focus on explaining to manufacturers, the process of obtaining research and development assistance through this organization.
- On April 27, 2012, staff will be sponsoring a supply chain workshop which will bring our region's advanced manufacturing firms into direct contact with original equipment manufacturers involved in wind, wave and solar energy.
- On May 8, 2012, staff will partner with the Portland Workforce Alliance in conducting the NW Youth Careers Expo at the Convention Center. This program is expected to attract over 5,000 youth from regional schools to the Expo to learn about careers in manufacturing, trades, and healthcare.
- Per City Council and Commission direction, staff recently formed and convened the eleven-member E-Zone Advisory Committee on January 20th. Established to oversee and make recommendations to the Commission regarding its expenditure of Community Contribution funds, staff will be meeting with this group on a quarterly basis, or more often if needed.
- E-Zone staff will be utilizing the Community Contribution funds to continue providing job training funding to E-Zone companies, such as SoloPower, and will disburse additional funds to benefit local businesses.

ATTACHMENTS:

None