

The Corvallis Economic Development Strategy – 2012

I. Executive Summary

The Corvallis area economy is at a crossroads. Although unemployment is low compared to the rest of Oregon, job creation has slowed overall and declined dramatically in the manufacturing sector which pays higher wages and adds most significantly to the property tax base on which city and county finances depend. Without a healthy economy, the City will be hard pressed to support the public services and amenities that citizens desire. Recent city surveys show low citizen satisfaction with economic development efforts. We thus have the need, and the opportunity, to foster a well-defined economic renaissance in a manner that honors our community's character and values.

Responding to the economic situation, the City of Corvallis in 2010 undertook a review of the Council Policy related to economic development and formed the Economic Development Commission (EDC), which acts as an advisory body to the City Council on all matters related to economic development.

After studying the local situation, and surveying peer Oregon cities and other university towns across the U.S., the EDC identified these key findings:

- The local economy is experiencing slow job growth overall, lack of diversity especially in the private sector, and a major decline in manufacturing employment.
- This economic underperformance has resulted in higher unemployment, less disposable income, and a stagnant tax base which impacts the ability to fund public education and local government services needed to fulfill Vision 2020.
- Corvallis and Benton County have the potential to be a center for innovation- and technology-based businesses, especially considering the community's current business assets and the presence of Oregon State University, one of the nation's top research universities, and one whose education and research portfolios are an outstanding match with state and local economic development needs.
- The greatest opportunities for family-wage job creation are associated with innovative startup companies and growth of local "gazelle" companies.

The EDC recommends acting on these three principles:

- A focused economic development program, adequately funded and supported by local government, is a key mechanism needed to take advantage of these opportunities.
- A package of tools such as financing assistance, land and building resources, an efficient and predictable development review process and business information resources must be available.
- Emphasis should be placed on building strong relationships among the City, the County, OSU, and the local business community.

Economic outcomes will be the net of growth and decline, starts and failures, and comings and goings. Even staying flat in terms of employment and per capita income will require investment and effort.

The Economic Development Commission intends that the goals and action items presented in this strategy document represent the start of a more urgent and closely managed approach to local economic development. Long-term success will be linked to an ongoing commitment, the ability to adjust to changing conditions, and the agility to respond to future opportunities.

This document includes an introduction placing this strategy in the context of other economic development work, a review of the current economic situation in Corvallis, the identification three major goal areas, an initial look at metrics for success in achieving these goals, and several recommended major actions (big ideas) and other activities (smaller steps).

II. Introduction

In 2010, the City of Corvallis reviewed the Council Economic Development Policy and formed the Economic Development Commission (EDC), which acts as an advisory body to the City Council on all matters related to economic development. A subsequent municipal ordinance formally established the EDC and assigned responsibilities including developing a strategic economic development plan. While the Commission's primary responsibility is the City of Corvallis, it is recognized that the local economy extends beyond the City limits and includes Benton County as a whole (and proximate areas outside of Benton County). In fact, the Corvallis Metropolitan Statistical Area (MSA) for which Census and other data sources report, is

considered to include all of Benton County. Further, a Benton County Commissioner serves as a member of the Corvallis Economic Development Commission.

In addition to the revised Council Economic Development Policy, the EDC considered several sources of information in guiding the development of this document. This includes the Vision 2020, Corvallis Comprehensive Plan, the *Prosperity That Fits* plan, and results of the 2010 Corvallis Citizen Survey. Common themes include economic diversity, creation of family wage jobs, and pursuit of opportunities associated with emerging technologies especially related to Oregon State University.

The *Prosperity That Fits* plan was completed in 2006 with the involvement and support of a large and diverse set of community organizations and engagement of many community members. *The Corvallis Economic Development Strategy*, as recommended by the EDC, is founded upon and consistent with *Prosperity That Fits*, but builds on that plan by identifying a focused set of goals and actions with associated metrics to promote the economic health of the Corvallis community.

III. Corvallis Economic Landscape - At a Crossroads

The future Corvallis can be a first-tier innovation center and an excellent location for science- and technology-based businesses with global reach. The City can maintain a compact size and character while being home to a top research university. Oregon State University is likely to be increasingly known for its ability to foster useful technologies and bring them to life, by transferring them to successful new private ventures. The area can have a vibrant mix of age groups and continue to enjoy unusual cultural diversity for a small metropolitan area. The Hewlett-Packard campus, Sunset Research Park, and other industrial sites can be full of R&D-intensive companies, and the Airport Industrial Park can be home to several companies with significant manufacturing operations. High average wages could allow more people who work in Corvallis to live here as well. Neighborhoods can be livable and downtown can be a lively center for retail businesses, professional offices, entertainment and restaurants, maintaining Corvallis's status as one of the most desirable locations in the country.

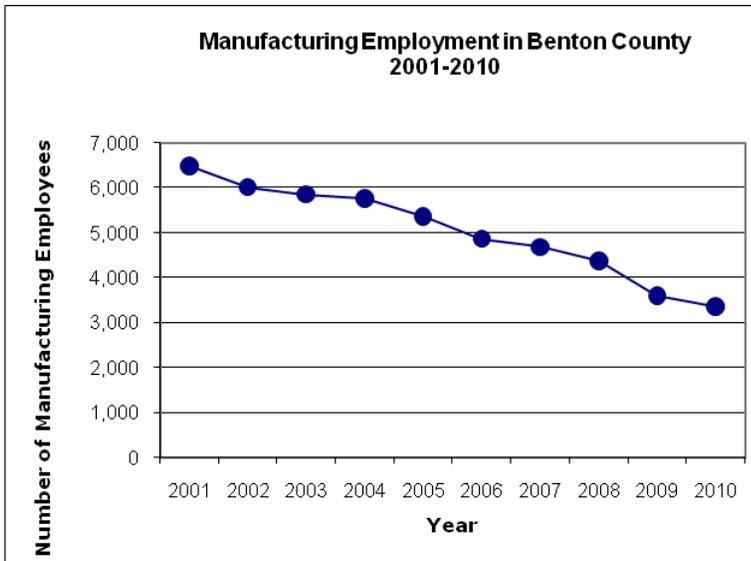


Figure 1: Manufacturing Employment in Benton County 2001-2010. Source: Oregon Employment Department

However, at the present, the Corvallis area economy and the resultant governmental revenue are at a critical juncture considering slow overall job growth, steep manufacturing job loss, and continuing low economic diversity. In sharp contrast to the 1980s and 1990s, Corvallis and Benton County are now job creation underperformers. Of the 179 smallest metropolitan areas in the country, Corvallis ranked (Milken Institute Best Performing Cities

Report) 90th in job growth and 113th in wage growth between 2005-2010. Job creation has improved to just above the national average most recently. This is largely due to OSU hiring, a trend that is not expected to continue for more than a few years. Most importantly, Corvallis has not been performing to its potential as “the most innovative city in America”, as reflected in our performance relative to peer cities, and particularly in our high-tech GDP growth (see Appendix chart).

| | 2002 | 2010 | % change 2002-2010 |
|---|---------------|---------------|--------------------|
| Total nonfarm employment | 37,200 | 37,370 | 0.46% |
| Total private | 25,160 | 24,720 | -1.75% |
| Mining, logging, and construction | 1,160 | 1,150 | -0.86% |
| Manufacturing | 6,010 | 3,350 | -44.26% |
| Durable goods | 5,620 | 3,040 | -45.91% |
| Trade, transportation, and utilities | 4,040 | 4,280 | 5.94% |
| Information | 950 | 840 | -11.58% |
| Financial activities | 1,380 | 1,350 | -2.17% |
| Professional and business services | 2,720 | 3,590 | 31.99% |
| Educational and health services | 4,680 | 5,610 | 19.87% |
| Health care and social assistance | 4,390 | 5,200 | 18.45% |
| Leisure and hospitality | 3,060 | 3,370 | 10.13% |
| Other services | 1,160 | 1,160 | 0.00% |
| Government | 12,030 | 12,650 | 5.15% |
| Federal government | 710 | 590 | -16.90% |
| State government | 8,450 | 9,120 | 7.93% |
| State education | 8,040 | 8,710 | 8.33% |
| Local government | 2,880 | 2,940 | 2.08% |
| Local education | 1,590 | 1,570 | -1.26% |

Table 1: Total nonfarm employment by sector. Source: Oregon Employment Department.

It is no surprise that this weak performance is now taking a severe toll on both city and county budgets. The Corvallis unemployment rate is high by historical standards but still among the lowest in the state of Oregon (still one of the worst

states). Unemployment rates only tell part of the story, however. A significant portion of Corvallis’s labor market is found in Linn County, which has a much higher unemployment rate, typically 3-5.5 percent higher than Benton County over the past twenty (20) years.

Most of Corvallis’s recent population growth is among non-employed residents, such as OSU students and retirees. Hewlett-Packard Company employment, which peaked around 7,000 ten years ago is now about 2,200, approximately the same level as in the early 1980s.

Manufacturing employment in 2010 in Benton County is nearly 50 percent lower than it was in 2001 (**Figure 1**). Total employment is roughly flat over the same period, but the pronounced shift from manufacturing and traded sector company employment to education and healthcare services employment is cause for concern (**Table 1**). Healthcare, which is mostly non-traded sector (and frequently non-profit), is currently expected to be the fastest growing employment segment. It would be nice if we could simply say “jobs are jobs” and that stability at our current level of comfort is what most Corvallis citizens want, but these shifts have some serious downsides:

- Wage levels in the growing sectors tend to be lower (**Table 2**) than in manufacturing or in industries that sell their goods or services outside the area (the “traded sector”).

| Industry | Employment | Payroll | Average Pay |
|----------------------------------|------------|-----------------|-------------|
| Manufacturing | 163,239 | \$9,371,719,368 | \$57,411 |
| Professional & Business Services | 180,948 | \$8,740,168,035 | \$48,302 |
| Education & Health Services | 221,829 | \$9,362,880,231 | \$42,208 |
| Health & Social Assistance | 195,524 | \$8,546,125,818 | \$43,709 |

Source: Oregon Employment Department.

Table 2: Average Pay statewide in selected employment sectors

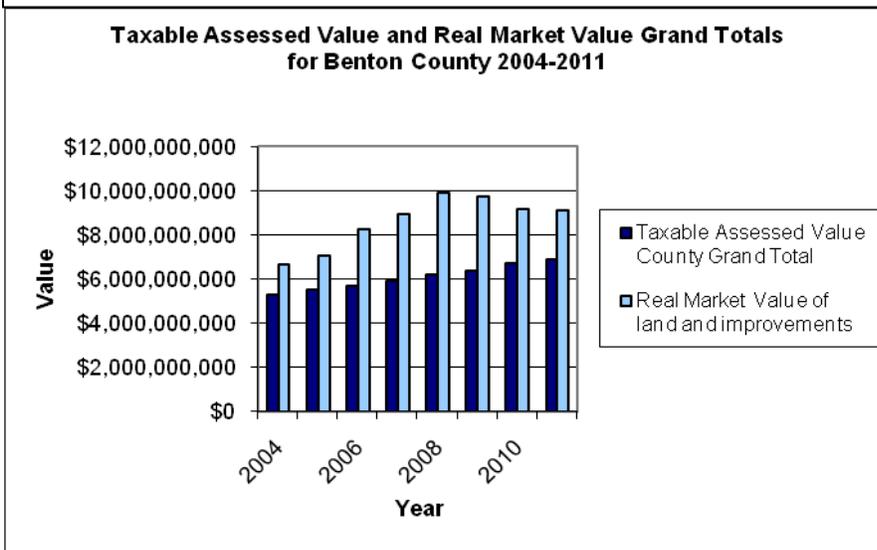


Figure 2: Taxable Assessed Value and Real Market Value Grand Totals for Benton County 2004-2011. (Benton County Assessor’s Office)

- The availability of less disposable income puts pressure on the retail sector, resulting in business closings and empty storefronts.
- Education, government and not-for-profit healthcare providers do not pay property taxes, and indeed, the Benton County property tax base has not kept up with desired public expenditure levels (**Figure 2: Taxable Assessed Value and Real Market Value Grand Totals for Benton County 2004-2011. Figure 3**). Retirees and students do not tend to have children attending Corvallis schools, resulting in declining student enrollment (**Figure 4**) and constrained public school budgets.

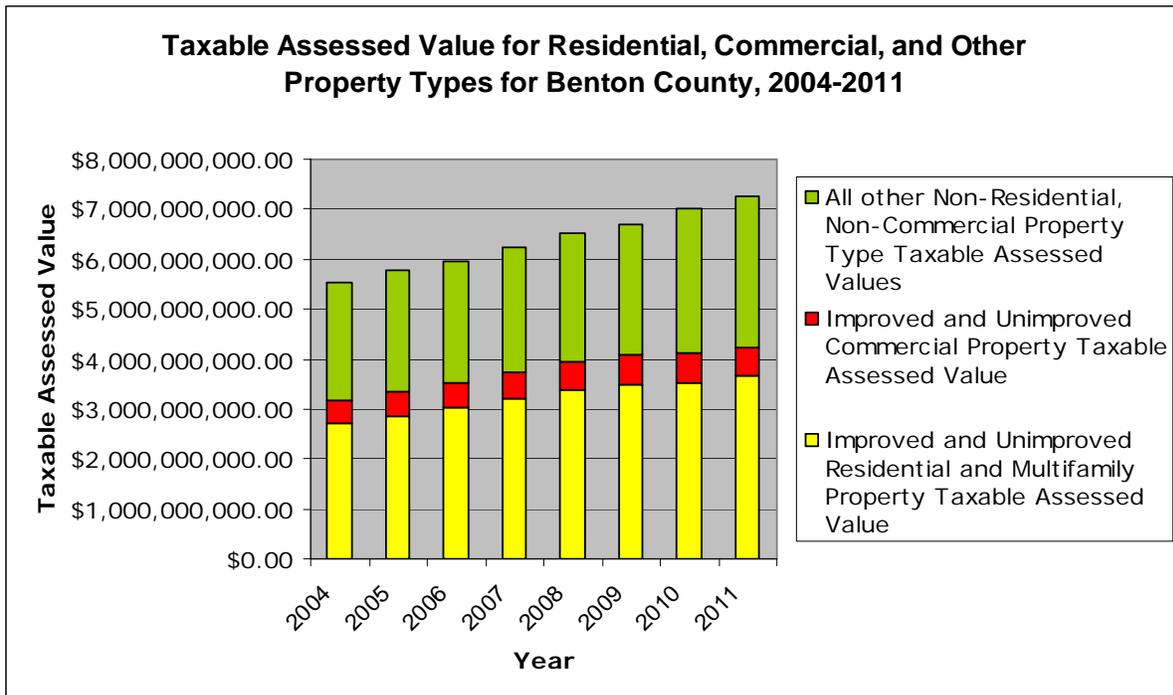


Figure 3: Taxable commercial property value has declined significantly since the major HP investments (c. 1977-1991, and is now stagnant at a very low level.

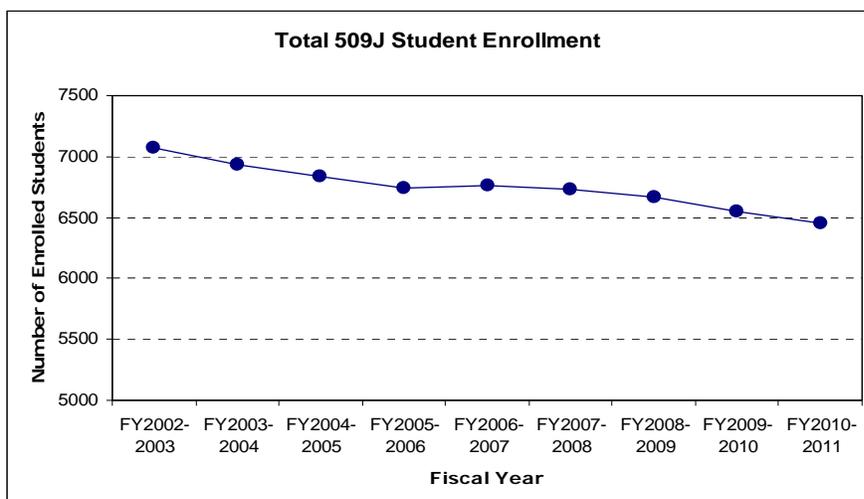


Figure 4: Total 509J Student Enrollment 2002-2010. Source: 509J By the Numbers: A Summary Report to the School Board and a Guide for Our Community. Corvallis School District.

Notwithstanding the above, the recent success and growth of Oregon State University and Samaritan Health Systems have contributed significantly to Corvallis and have come at a good time. This growth may well continue, but it does not contribute to diversity in private sector employment and is not without its own set of market sector risks. Federal and state payments for healthcare could grow with demand or budget pressures may bring this trajectory down. The belief that a undergraduate college degree is a gateway to a highly paid job may weaken as a result of global economic shifts.

Finally, it is important to consider Corvallis's characteristics: We are a highly educated college town, perceived to be a geographically isolated, and severely lacking in business cluster strength and intensity. Thus we must have realistic economic development expectations. We will probably not recruit another major industrial manufacturing site; however, innovation-based OSU spinouts and other startups that remain and grow in the Corvallis MSA are our best major opportunity. This is familiar ground, and the plan described in the rest of this document has carefully taken this into account.

The Corvallis Economic Development Commission has based its recommended economic development action strategy on these conclusions:

- Corvallis DOES need an effective economic development strategy and program emphasizing high-wage traded sector employment and property tax base growth.
 - This strategy must not attempt to be all-things-to-all-people but rather make focused choices and be driven by rigorous, achievable, and measurable goals that are consistent with community values.
 - The program must be fiscally responsible and scalable to accommodate potentially high returns on the investment. At the same time, it must be stressed that Corvallis economic development is a public good and responsibility. It is not something we can expect to be funded primarily by the business community.

- Corvallis's main opportunities lie in the area of innovative startups (especially out of OSU) and organic growth in local 'gazelle' companies.

- There are significant ways these opportunities can be enhanced by taking advantage of Corvallis excellent economic and business assets, chiefly OSU, HP, Samaritan Health Services, and CH2M HILL as well as the highly educated Corvallis citizenry.

III. Goals

1. **INNOVATION/STARTUPS** – Provide a local business environment that supports a successful, diverse traded-sector entrepreneurial community.
METRIC: for each year, 5-10 new seed stage (startup) companies, 3-5 A-round (emerging) companies raising approximately \$10M/yr, 1-3 B-round (growth)_companies raising approximately \$20M/yr.

2. **ORGANIC GROWTH** – Identify opportunities and support the retention and growth of companies that are currently located in Benton County.
 - a. Seek out the most promising Stage 2 companies in Benton County as determined by local employment growth and capital investment and provide services that will support these companies’ continuing local presence and enhance revenue and employment growth opportunities.
METRIC: Corvallis “Top 20” employment and payroll.
 - b. Develop a major account manager program that will proactively address the needs and growth opportunities of the largest Benton County employers.
METRIC: Major Account Managers assigned and frequency of contact/reporting

3. **LEVERAGE LOCAL ASSETS**—Develop a program that will focus on increased tenancy in existing vacant buildings and Enterprise Zone locations by business and industry types that are consistent with the *Prosperity That Fits Plan*
METRIC: Tenants identified, permitted, moved in, and employing local citizens.
(Benchmark evidence to show Corvallis has best-in-class site readiness and business expansion support processes.)

Additional metrics will be developed in order to evaluate performance in addressing the above goals. The connectivity among a variety of factors that contribute to the performance of the local economy is acknowledged. Therefore, overall economic health indicators such as private sector employment, wage levels and property tax growth shall be identified and tracked.

IV. Big Ideas

1. Provide critical financial assistance to growing businesses through tools such as (a) Urban Renewal Districts and (b) a local economic development loan program. Supports goals 1, 2a, and 3 (if URD covers one or more EZ locations).
2. Leverage the OSU-Corvallis relationship and Memorandum of Understanding to provide unprecedented advantages to Corvallis-based startups, including research infrastructure access, incubator/accelerator resources, HR and purchasing infrastructure, and innovative community networking. Supports goals 1 and 2a.
3. Support business growth by providing properly zoned and serviced land and maintaining a timely and predictable development review process. Verify via benchmarking that Corvallis is best-in-class regarding comparable university towns across the U.S. Supports goals 2a, 2b, 3.
 - a. In particular, pursue opportunities to develop a research park for science-intensive companies, ideally ones that have strong synergy with OSU research strengths. Consider public investment opportunities for such a park, ranging from public ownership to infrastructure development and business financing tools.
 - b. An opportunistic, but nevertheless valuable, strategy is to recruit new tenants for vacant space in Enterprise Zone areas (HP campus, Sunset Research Park, Airport Industrial Park) as well as to invest in additional land and building resources designed to meet the needs of scientific- and technology-oriented business and industry.
4. Recognize that economic development must be a core/organic local government service as opposed to an entirely outsourced effort. Accordingly, create and staff a permanent city/county Economic Development Office, reporting to the city manager, to implement the above actions, manage business outreach and assistance; coordinate business lead responses and community and business asset promotion; and propose and implement new efforts to ensure Corvallis's competitiveness for business investment. Supports ALL goals.

V. Smaller Steps

1. Develop a best-in-class information gateway portal that will provide resources to support business development with information about demographics and economics, technical and financial assistance programs, available land and building resources (Goals 1, 2a, 2b, and 3).
2. Support programs sponsored by local and regional partners to facilitate innovation, entrepreneurship, and business investment. Examples include the Willamette Angel Conference and Willamette Innovators Network (Goals 1 and 2a).
3. Build a strong relationship with the local business community through the account manager concept, and an ongoing Business Visitation program involving government and community leaders (Goals 2a and 2b).
4. Ensure that City has an effective and productive relationship with Business Oregon, the State's economic development agency, for access and response to business development leads (Goal 3).
5. Pursue outside resources to fund expanded business development programs in Benton County (Goals 1, 2a, 2b and 3).
6. Provide a business-oriented welcoming program for key recruits of local employers (Goals 2a, 2b, and 3).

Appendix: Selected economic performance statistics comparing Corvallis and selected peer university cities (that are also small MSAs) around the U.S.

| City | 5-yr Job Growth (2005-2010) | 1-yr Job Growth (2009-2010) | 5-yr Wages & Salaries Growth (2004-2009) | 1-yr Wages & Salaries Growth (2008-2009) | Job Growth (Jun 10-Jun 11) | 5-Yr Relative High Tech GDP Growth (2005-2010) | 1-Yr Relative High Tech GDP Growth (2009-2010) |
|---|-----------------------------|-----------------------------|--|--|----------------------------|--|--|
| Ames, IA MSA | 104.25 | 100.35 | 104.99 | 104.43 | -1.71% | 74.48 | 100.08 |
| Champaign/Urbana, IL MSA | 100.47 | 99.52 | 101.65 | 104.26 | -3.75% | 101.77 | 95.89 |
| College Station-Bryan, TX MSA | 113.28 | 101.69 | 115.97 | 106.50 | 3.19% | 95.09 | 96.74 |
| Corvallis, OR MSA | 101.09 | 101.04 | 98.64 | 101.52 | 3.49% | 89.58 | 93.42 |
| Davis, CA (Sacramento-Arden-Arcade-Roseville, CA MSA) | 94.47 | 97.90 | 100.48 | 100.73 | -0.35% | 101.68 | 99.02 |
| Fort Collins-Loveland, CO MSA | 104.93 | 101.01 | 102.65 | 102.21 | 3.14% | 101.26 | 99.01 |
| Ithaca, NY MSA | 107.61 | 101.77 | 102.85 | 104.09 | 2.01% | 95.01 | 102.21 |
| Lafayette, IN MSA | 101.87 | 99.75 | 98.28 | 101.81 | 1.32% | 82.63 | 92.85 |
| Lansing-East Lansing, MI MSA | 98.00 | 101.55 | 92.51 | 99.40 | 1.48% | 80.03 | 95.43 |
| San Luis Obispo-Paso Robles, CA MSA | 97.64 | 99.25 | 101.67 | 101.65 | 0.73% | 101.22 | 100.59 |
| State College, PA MSA | 105.87 | 101.51 | 105.50 | 104.66 | -0.13% | 109.95 | 100.52 |

Note: A score of 100.00 is the national average.

Source: 2011 Best-Performing Cities - 200 Largest Metros. Milken Institute.

<http://bestcities.milkeninstitute.org/bestcities2011.taf?rankyear=2011> (Accessed Dec. 29, 2011)