

# ***Polk County Agriculture and Food Economic Development Initiative – Options to Consider***

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## **Executive Summary**

Polk County, Oregon has abundant agricultural resources that generate \$157<sup>1</sup> million in farmgate sales to support production for local and export consumption as fresh and processed products. Polk County is likely to be competitive for a range of value added agricultural and food products in the Salem, Portland, Corvallis and Eugene metropolitan areas. The Polk Extension Citizens Advisory Network (PECAN), Chair Jim Clawson, Polk County Commissioners, and Polk County Extension Regional Administrator, Derek Godwin, asked the Oregon State University Applied Economics Department and the Rural Studies Program to study the feasibility of potential economic development initiatives related to agriculture and food that may provide long term benefits to the Polk County economy.

The authors and a student worker, Brytann Busick, conducted qualitative and quantitative research between October 2011 and January 2013 to ground truth the input-output IMPLAN model, solicit ideas for economic development initiatives and test the feasibility of projects that would incorporate the interviewees' ideas. A number of alternative economic development strategies were explored and eventually four alternatives were considered: 1) a specialty meat packaging and marketing venture, 2) a tourism promotion project, 3) a business retention and expansion program for existing businesses and existing markets, and 4) three types of infrastructure improvements including a transportation planning effort to provide more efficient access to Polk County from I-5, an irrigation project in south Polk County and a full coverage broadband initiative.

We estimated that a specialty meat facility that focused on training while it was also selling its products would require a start-up cost of \$2.6 million and \$1.2 million annual investment.<sup>2</sup> It could potentially return \$1.5 million in annual economic activity along with the educational and training benefits for the local labor force.

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<sup>1</sup> Oregon Agricultural Information Network 2011, Oregon State University.  
<http://ir.library.oregonstate.edu/xmlui/bitstream/handle/1957/28566/sr790-11.pdf>

<sup>2</sup> Gwin, Lauren, Arion Thiboumery, and Richard Stillman. *Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability*, ERR-150, U.S. Department of Agriculture, Economic Research Service, June 2013.

If the inputs or supplier linkages were more local and a significant portion of the sales could be exported retail or sold locally to tourists, we would expect the impacts to triple. The annual government support for the first five years would be approximately \$500,000.

A tourism program, possibly with an emphasis on agri-tourism, was the second option we developed. If the program increased current Polk County visitors by ten percent, it could provide an additional \$16.8 million annually to Polk County sales. If the tourism efforts were utilized to expand an existing firm to add ten employees or recruit and retain just one ten employee business per year, the annual sales impacts could exceed the increased tourism impacts within four years and may be less susceptible to macroeconomic fluctuations.

Next we considered a Business Retention and Expansion (BRE) program. This program is widely used across the U.S. to help existing businesses increase and diversify production. The direct program costs range from \$10,000 to \$30,000 and the volunteer time commitment is significant. However, it is one of the few programs that helps businesses with their current circumstances and does not rely on projections or hopeful outcomes. BRE programs can increase support for business within communities, provide specific skill building among entrepreneurs and help businesses, particularly small businesses, address regulatory or infrastructure needs with government agencies.

We did not have sufficiently defined infrastructure projects to estimate their economic effects. The County might consider a feasibility study for one or more of the three options that businesses suggested.

Each of these four types of economic development initiatives are discussed in more detail below. Readers need to remember that the estimates of economic impacts primarily come from an input-output model called IMPLAN for *IMPact PLANning* that has limitations to how well it portrays the current economy let alone how well it can be used to project impacts. Still, it is a widely used and transparent model that is regularly refined based on user suggestions.

## **Introduction**

This report profiles the economy of Polk County, projects some future economic concerns for the County, and describes four economic development initiatives that the County might sponsor to build greater economic vitality in the County.

To provide context for the reader, this report assumes that the private sector is more effective at identifying and acting on market opportunities and trends than government. Examples of where government intervention in the marketplace can be effective are to produce public goods like work force training or infrastructure improvements and to address social issues like reducing the distress of unemployment or increasing community stability by supporting employment or business opportunities that allow citizens to find work or start businesses locally and not need to relocate or make long commutes.

We have conflicting evidence of whether or not government spending and/or business initiatives, especially at the local level, can have measurable short term impacts, can be self-sustaining, or can need not rely on government support in the long run.<sup>3,4,5</sup> There is more evidence that government can be effective at education/training, research,

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<sup>3</sup> National Public Radio 2011. How To Create a Job May 13, 2011. <http://www.thisamericanlife.org/radio-archives/episode/435/how-to-create-a-job>

<sup>4</sup> Schumacher-Matos, Edward 2011. Planet Money Misfires on Local Economic Developers. National Public Radio. <http://www.npr.org/blogs/ombudsman/2011/06/23/137349286/planet-money-misfires-on-local-economic-developers>

<sup>5</sup> Krugman, Paul 2012. End This Depression Now. New York, New York; W.W. Norton Company, Inc. pp.212 &238.

consolidating information, certification and testing, managing assets like natural capital that society holds in common (e.g. navigable rivers or wildlife) to assure their sustainability and equitably allocating costs for large projects like roads. The following discussion anticipates that in these difficult budgetary circumstances, local government is not able to create large spending programs and it will focus on those areas where it can be most effective. Where we suggest intervening in the private market, we are explicit about the public goods and services the proposals can create.

### **Economic Profile of Polk County**

We primarily use employment and value-added or income estimates as metrics to describe a local economy. While output or sales estimates are the most commonly used metric, they are built on every sale that businesses make as a product moves along to becoming a finished good (e.g. fertilizer for a pasture is counted when it is purchased from the coop, counted again in the price of the milk it helped to produce, counted again if the milk is used to produce cheese, and counted again if the cheese is used for a meal prepared in a restaurant) and there is a lot of “double counting” in output estimates, so we do not report those projections. Table 1 provides the employment information over a two decade period from 1990 to 2010.

**Table 1. Unemployment, Self-Employment and Employment by Sector<sup>6</sup>**

	Polk		Oregon	
	1990	2007-11	1990	2007-11
Unemployment Rate Estimate reported by OR Employment Dept	5.5	9.0 (2011)	5.4	9.6 (2011)
Percentage of Households with Self-Employment Income	19.15%	13.39%	17.47%	13.84%
Total Employment	17,479	25,921	1,626,385	2,221,802
Agriculture, Forestry, Fishing, Mining	7.19%	5.71%	5.24%	3.51%
Arts, Entertainment, Recreation, Accomodation	1.12%	7.53%	1.34%	9.35%
Construction	4.95%	5.39%	5.62%	6.47%
Education, Health, Social Services	22.93%	24.91%	19.43%	21.60%
FIRE: Finance, Insurance, Real Estate	5.38%	5.27%	5.96%	6.21%
Information	--	1.76%	--	2.04%
Manufacturing	15.79%	8.06%	17.67%	11.49%
Other Services	6.73%	5.10%	6.71%	4.96%
Professional, Science, Management, Administration	3.21%	7.50%	4.60%	10.02%
Public Administration	9.24%	10.95%	4.10%	4.62%
Retail Trade	15.95%	12.38%	18.11%	12.35%
Transport and Utilities	4.27%	3.54%	6.54%	4.34%
Wholesale Trade	3.25%	1.92%	4.69%	3.05%

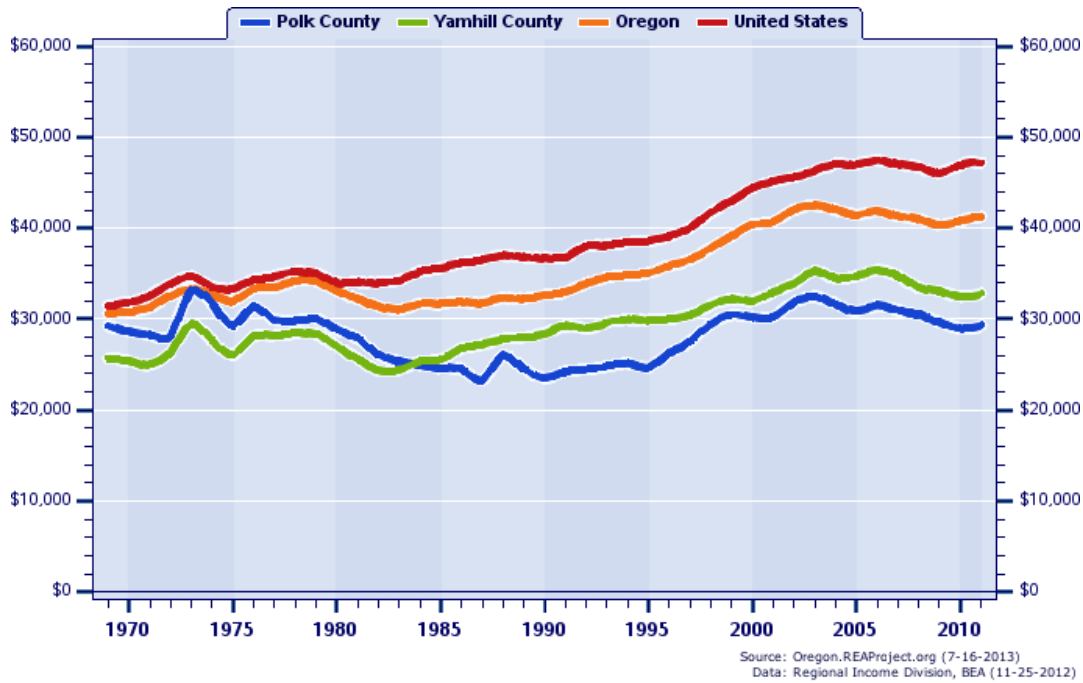
Notable in the changes from 1990 to 2007-11 are the percentage of employment declines in agriculture and forestry, manufacturing, and retail and the increases in the entertainment sector along with modest increases in the service sectors. The sectors that declined were historically stable through many business cycles because they produced goods that were more essential and not as reliant on discretionary spending. In fact, they were stable and showed slight growth in percentage during the recent recession. However, since 1990 the sectors that have shown the most growth have been industries that are dependent on discretionary spending and may be less stable over time. In addition, average earnings per job in the sectors that are growing are less

<sup>6</sup> Oregon Rural Communities Explorer <http://oregonexplorer.info/rural/>

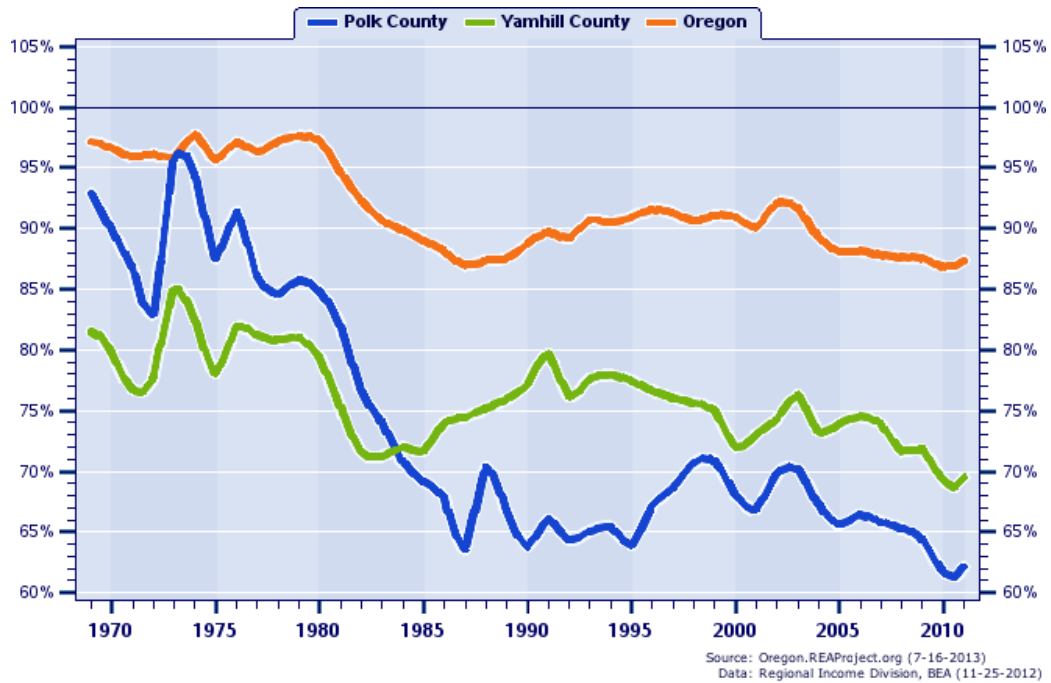
than those that are declining so the average earnings for jobs in Polk County have remained essentially the same since 1969 as graphed in Figure 1, while Oregon and the U.S. have increased. Polk County's average earnings per job have been relatively declining, as have many other Oregon counties and Oregon as a whole, when calculated as a percentage of the U.S. average earnings per job as shown in Figure 2.

To expand on the previous point, the decline in average earnings per job as a percentage of the U.S. average reflected in Figure 2 is most likely caused by a shift from an economy that is primarily producing products that are in the basic sectors like natural resources and manufacturing to an economy with growing service sectors, most of which do not have average earnings as high as basic sectors and most of which are not exported. This is not a surprising point to most Polk County residents, yet the most effective way to reverse this trend is to develop high value-added outputs and rebuild the basic sectors with more specialized products that also contribute more to the County's net product or value added income. In Oregon, examples of counties that had similar trends and have experienced some success reversing those trends are Hood River County and Wasco County.

**Figure 1. Average Earnings Per Job - Constant 2005 Dollars<sup>7</sup>**



**Figure 2. Average Earnings Per Job as a Percentage of U.S. - Constant 2005 Dollars<sup>8</sup>**



<sup>7</sup> Smith, Gary 2013. Pacific Northwest Regional Economic Analysis Project (PNREAP). U.S. Bureau of Economic Analysis. [http://oregon.reaproject.org/analysis/comparative-trends-analysis/average\\_earnings\\_per\\_job/](http://oregon.reaproject.org/analysis/comparative-trends-analysis/average_earnings_per_job/)

<sup>8</sup> Ibid.



Again, Polk County still has a strong natural resource base particularly when it is considered within the Polk/Marion/Yamhill region.<sup>9</sup> In the region, agriculture and the food industry provides 15-20% of the economic base and, if local production could be more fully linked to retail food sales and food services (restaurants), that percentage may be increased to 20-25%.

Even though the government sectors, including Education and Public Administration, have been flat and are now declining, along with manufacturing, real estate, health services, and agriculture and forestry, as shown in Table 2, those sectors still contribute the most to the County's production when measured as value added dollars. NAICS is the North American Industrial Classification System, which is used throughout the U.S. to categorize or group similar businesses. The non-NAICS portion of the Government and non-NAICS sector is just the miscellaneous sectors that could not be matched to other businesses. They are extremely small yet we used this title for that category to remain consistent with the IMPLAN classifications.

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<sup>9</sup> O'Connor, Patrick 2012. *Agriculture in Marion, Polk, and Yamhill Counties*, Worksource Oregon Employment Department. [www.QualityInfo.org](http://www.QualityInfo.org)

**Table 2. Total Value Added or Net County Product - Two-Digit NAICS 2010 Data**

<b>Description</b>	<b>Total Value Added or Net County Product</b>
<b>Total</b>	<b>1,233,141,826</b>
Government & non NAICs	341,452,288
Manufacturing	149,619,616
Real estate & rental	121,633,240
Health & social services	100,736,880
Ag, Forestry, Fish & Hunting	99,960,320
Retail trade	67,991,664
Construction	66,551,704
Finance & insurance	41,799,324
Other services	40,356,724
Wholesale Trade	39,874,512
Accommodation & food services	32,370,380
Professional- scientific & tech svcs	30,401,958
Administrative & waste services	27,439,972
Utilities	25,776,824
Transportation & Warehousing	24,491,112
Information	13,676,807
Arts- entertainment & recreation	3,129,778
Educational svcs	2,848,740
Mining	1,819,075
Management of companies	1,210,908

Since jobs in government have been declining in Polk County and Oregon for the last three years and given the budgetary issues that have been extensively described across Oregon, it is reasonable to anticipate that Polk County's government sector may continue to decline.<sup>10</sup>

Another though more positive feature of Polk County and the Salem Metro Area that affects the businesses in the region are the housing opportunities and costs. When compared with the nearby metro areas of Portland, Corvallis and Eugene; Salem and

<sup>10</sup> Oregon Employment Department 2013. *Oregon Government Employment (Seasonally Adjusted)*. Oregon Labor Market Information System. <http://www.qualityinfo.org/olmisj/CES?dataseries=or&areacode=01000000&adjusted=1&action=history&series=90000000&submit=Continue>

Dallas have the lowest median home values and very competitive median rents, which are lower than Portland and Eugene and comparable to Corvallis.<sup>11</sup>

### **Community, Business and OSU Faculty Visits**

Within this context of an economy that has become more reliant on a more volatile set of service sector industries, yet has potential to grow its value added agriculture and food sectors and related tourism sectors, we interviewed community leaders, agriculture and food business (and related industry) leaders, and OSU Extension and Experiment Station scientists. We asked them questions about the Polk County economy in general, the County infrastructure's ability to support their businesses and business in general, and then we focused on their suggestions for ways to strengthen the economic impacts of the agriculture and food industry in Polk County. The basic questionnaire that we used is included as Appendix A.

We interviewed 25 community business people and other community leaders and 12 OSU Extension or faculty members. The folks with whom we visited provided suggestions in the following areas:

- 1) Developing additional or new value added agriculture and food products particularly by trying to find a mid-point between high priced niche marketed goods and services and commodity goods and services (e.g. moderately priced Pinot Noir wine or safe harbors to allow agricultural producers to provide services like weddings from their farms);
- 2) Tourism development to highlight agriculture and food and recruit new businesses;
- 3) County or regional level Business Retention and Expansion (BRE) program;
- 4) Infrastructure improvements including transportation access to I-5, irrigation for the south end of the County, and full coverage of Polk County with high speed internet;
- 5) Creating Web based markets for meat and other products; and

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<sup>11</sup> American FactFinder 2013. U.S. Department of Commerce/U.S. Census Bureau.  
[http://factfinder2.census.gov/faces/nav/jsf/pages/community\\_facts.xhtml](http://factfinder2.census.gov/faces/nav/jsf/pages/community_facts.xhtml)

- 6) Skill building for semi-skilled workers like the Strategic Economic Development Corporation's (SEDCOR) Industrial Maintenance Operator/Mechanic Training Program (IMOM).

### **Specialty Meat – Value added processing, cut/wrap, retail sales and hub sales**

We included items 5 and 6 with item 1 above. This specialty meat example shows that developing value added agriculture and food (1) production can at the same time tap into the global markets (5) and create a training program for semi-skilled workers.

*“Consumer demand for local food, including local meat and poultry, has risen in recent years. To sell meat, farmers need access to appropriately scaled processing facilities with the skills, inspection status, and reliability to prepare these products safely, legally, and to customer specifications.”<sup>12</sup>*

Meat has a low elasticity of demand or when the price is adjusted the percentage change in the amount purchased is less than the percentage change in price. It meets the criteria above as being an essential for many people and less vulnerable to drops in discretionary spending. Polk County producers and other business people confirmed the finding cited above. We considered an option to produce and market specialty meats because there appears to be excess demand, it leads itself well to a public good work training effort, and it has the potential to draw visitors and support the tourism initiative discussed below. Here is an exchange by the lead author in the USDA study cited above, Lauren Gwin, with the one of the many users of the Niche Meat Processor Assistance Network (NMPAN) who agreed there is a shortage of skilled meat cutters.

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<sup>12</sup> Gwin, Lauren, Arion Thiboumery, and Richard Stillman. *Local Meat and Poultry Processing: The Importance of Business Commitments for Long-Term Viability*, ERR-150, U.S. Department of Agriculture, Economic Research Service, June 2013.

Hi everyone,

*A small, USDA inspected plant just asked me the question I know many plants ask: "how and where can I find good meat cutters to hire?"*

*Anyone have any general advice about finding/hiring people? Good places to post job ads? Other tips? We've had a little of this discussion on the list serve before, but it's been a while.*

Thanks,  
Lauren

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*We had our lead meat cutter injured (not on the job - pheeew) several months ago and began in earnest looking for a replacement or even a trainee that he could oversee while recovering. We tried the local and regional employment services - not usually the best resource but, we figured it couldn't hurt. We printed brochures and distributed them to: Meat Processors association, Culinary Schools and even a meat cutting trade school in a high school. We also contacted the Meat Cutters Union... We advertised in several online sites and.....6 months later - Nothing! So I'm hoping we've overlooked some incredible resource and this listserve will point us in the right direction!*

*NMPAN User*

Education and training and reducing the personal and social disruptions of unemployment are responsibilities that most people expect government fulfill. In Mount Angel, OR, Polk County can access the necessary slaughter facilities to provide hanging carcasses for a specialty meat facility in Polk County. A specialty meat facility located in Polk County could hire two trained supervisors for production, two instructors, and two retail managers with Web based sales experience.

Given the current and probably future constrained budgets for local governments, a more modest project that could build on the supply of and demand for local meat would be a County-wide clearing house to help more consumers purchase meat directly from producers. This system could be developed for an estimated \$10,000 and the support for the system subcontracted with a private firm for approximately \$25,000 per year. The return in the form of local economic activity per year could conservatively be 3:1.

### **Tourism to reinforce existing and recruit new agricultural and food producers**

Polk County may have significant potential to increase marketing to the Salem, Corvallis Eugene and Portland metro areas. Tourism can be very helpful for retail and food and beverage sales. It can also be used with a more extensive marketing system, which most communities do not develop, to grow and recruit customers and businesses. To extend the episodic impacts of tourism to the longer term structural benefits requires a strategic and persistent approach. It needs to avoid competition with adjoining communities and counties and develop relationships (e.g. mailing lists, newsletters, local social events/programs) with visitors. Teams of business people who are willing to person booths during events and testify to the benefits of developing a business in Polk County can be very effective. Customer service training that guarantees sales people, servers and even residents are local boosters in every interaction with visitors is essential.

As a first step, we have initiated a project with a team comprised of representatives of the Polk County Community Development Department, the OSU School of Engineering and the OSU Rural Studies Program to create a mobile and remotely programmable kiosk that can be utilized year round any place in the County to inform visitors and promote businesses. We may have a prototype ready for testing by June 2014.

### **County or regional level Business Retention and Expansion (BRE) program**

The Strategic Economic Development Corporation (SEDCOR) collaborated on this study and one of the results was SEDCOR has taken the lead in developing a regional BRE program. Eleven communities in the Polk and Marion counties region have asked to participate. If sufficient funding can be found from the State and the communities, the program could begin during the summer of 2014.

## **Infrastructure improvements**

We were not able to determine from people's concerns the projects that we could analyze for economic benefits. However, there are a number of modest sized projects in transportation, irrigation and provision of broadband connections that might serve as useful pilots for much larger projects. We could suggest possible members of a team to work in each area, if decision makers thought an investment of at least \$50,000 was possible to develop two or three specific recommendations.

## **Considerations**

During this study, we did not discover any major market inefficiencies - new private sector products or production processes that we could show entrepreneurs and expect them to make investments that would reinforce the Polk County economy. We did confirm a trend away from stable industries to less stable industries that are more dependent on discretionary income and vulnerable to national and international economic shocks. We did refine suggestions from producers, consumers, community leaders and scientists for projects that could create significant economic activity. The increase in economic activity and the growth of the agriculture and food industry is possible if sufficient public investment can be provided to prompt private investment and eventually create both private and public goods and the jobs to make that happen.

## Appendix A

### Polk County Questions

Type of business or role in community \_\_\_\_\_

Date \_\_\_\_\_

- 1) How long have you been living/working in Polk County?
  
- 2) What are the best and worst things that have happened to the economy during your time in Polk County?
  
- 3) What do you consider to be the keystone sectors/businesses in Polk County today (employment, potential for growth, and effect on the community's ability to retain and recruit people) in percentage of total economy?
  
- 4) What are the more important facilities, infrastructure or systems that currently exist or are needed to contribute to the economic success of Polk County and this agriculture and food initiative?
  
- 5) What is the greatest opportunity or one thing that could be done for the community that would add to its economic vitality and support the agricultural and food industry that is currently underdeveloped or not being tried?
  
- 6) Are there other ways that local, state or the federal government could help Polk County be more economically successful?
  
- 7) Are there any additional questions or issues that we need to discuss?