2019-21 Strategic Plan

January 2019

EDCO MOVE START GROW

Economic Development for Central Oregon

2019-21 EDCO Strategic Plan

About the Plan

Since our founding in 1981, EDCO has developed and implemented comprehensive strategies to drive short and long-term growth and prosperity in the tri-county area we call Central Oregon. Over those years, strategic plans have provided both focus and direction for our work, which has positively impacted our communities and residents through the creation of nearly 10,000 well-paying jobs and hundreds of new traded-sector employers who are not dependent on the local or regional economy for their success. Through the organization's efforts, entire new industries have gained critical mass here - working alongside long-established sectors such as building products and agriculture.

This plan was developed by EDCO's 14-member professional staff and 46-member Board of Directors and invited guests with the help of Jon Roberts, principal with Austin, Texas-based TIP Strategies, who facilitated a strategic planning retreat in September 2018. In the months following, considerable time and thought has been dedicated to discussing changing industry trends, market conditions, the national economy, statewide policy making, labor force and housing challenges, and critical infrastructure.

Historically, we have tracked and evaluated our progress on four key metrics: job creation, capital investment, payroll, and diversification (# of completed move, start and grow projects across a variety of industries). While the 2019-21 plan stays true to these traditional milestones, EDCO stakeholders agree that without progress on other key issues impacting our outcomes, we will not be able to achieve the high expectations set for the organization.

Be the premier small metro and rural living experience in the nation with prosperous communities and quality jobs for Central Oregonians

Vision

Help move, start and grow traded-sector businesses to purposefully create a balanced and diverse economy

Mission

"Traded-sector" is economic development jargon to describe businesses that export the majority of their goods or services outside the tri-county area or which predominantly sell their products to other businesses that add value before exporting them outside the area. Traditionally, traded-sector employers are manufacturers and technology companies, however these days they can also include professional services including architecture, engineering and accounting – provided that a majority of the company or firm's income is derived from customers outside the tri-county area.

Boil down our vision and mission statements, and the primary reason EDCO exists is to help foster creation of gainful employment for our current residents and future generations. For many rural and isolated places in the country, young adults have virtually no choice but to leave in order to find career opportunities. Successful economic development provides our children and grandchildren with options to stay.

Core Values

Over the years, EDCO has grown from a small non-profit focused primarily on business recruitment to one of the largest economic development organizations in the Pacific Northwest. Today, we work on a much broader scale to "move the needle" for our dynamic $10+ billion tri-county economy. What's behind how we operate is summarized by our core values.

It's important to note that these were not developed by a management consultant or through a facilitated team-building exercise. Rather, they first became memorialized in the office kitchenette on a sheet of paper taped to the cabinet over the sink. Rarely spoken, they still form the "EDCO way" of doing this challenging but rewarding work and quietly govern how we interact – internally and externally.

EDCO's CORE VALUES

We're a non-profit run like a BUSINESS

- **ACCOUNTABLE** to our board, members, client companies and communities
- **EFFICIENT** managing limited resources like our own
- **ENTREPRENEURIAL** looking for opportunities and taking calculated risks
- **INNOVATIVE** learning comes from experimentation – don't accept the status quo

We pride ourselves on being RESPONSIVE

- **BIAS FOR ACTION** economists study the economy, we improve it
- **FACTUAL** a trusted, objective resource for data and economic trends
- **ACCOMODATING** ridiculously – we constantly look to add value
- **TAKE THE HIGH ROAD** our work demands the highest integrity and professionalism

What drives us is TEAMWORK

- **EMPOWERED** we own our work and are nimble, creative and resourceful
- **NO FAIL ATTITUDE** teamwork trumps titles to cross the finish line successfully
- **INITIATIVE** self-motivated, self-managing individuals who are also our work family
- **PERSPECTIVE** serious work, fun people

Diversity

EDCO staff horsing around at the 2018 Bend Venture Conference

While a hot HR topic today, diversity within the organization is not something we talk a great deal about, but rather has organically been a fixture of the organization for many years. When hiring, we employ local professional search firms to find the best talent possible with out regard to age, gender, race, or education. Using this principle, we have maintained a mix of talented men and women who currently represent three generations. Similarly, the EDCO Board of Directors looks very different from many economic development organizations across the country with a roughly even mix of accomplished men and women leaders spanning several age groups. Women business leaders have held the role of President six of the last 10 years – elected by their peers from across the region not because of their gender but for their business acumen and passion for economic development.

EDCO's Results in Past Planning Periods

For many years, the organization has adopted metrics-focused strategic and operational plans that numerically measure both effort and results – primarily to track progress and adapt as necessary to achieve goals and secondarily for accountability back to our board, members and strategic partners. Today, EDCO is a leader in Oregon for being able to clearly demonstrate the return on investment and impact to the economy from its work. Goals have been forward-looking and aspirational, historically established less on what is in EDCO's business development pipeline or a mathematic/econometric model and more on making a substantive difference in the tri-county economy - what we call "moving the needle". For business development, our "done deals" and capital investment goals have greatly exceeded targets while employment goals have consistently not been met as the table below illustrates. These metrics are factored into the comprehensive revision of effort and results goals for the 2019-21 plan.

BUSINESS DEVELOPMENT GOALS & RESULTS OVER THE PAST THREE PLANNING PERIODS

	2010-12		2013-15		2016-18		2010-18 TOTALS
	Goal	Actual	Goal	Actual	Goal	Actual	
Companies	36	50	96	124	105	109	283 deals
Jobs	1,500	1,319	2,000	1,736	2,000	1,668	4,723 jobs
Cap. Invest.	$100 m	$567.8 m	$350 m	$517.6 m	$485 m	$847.2 m	$1.9 billion

It is important to note that for the 2016-18 planning period employment goals would have been far surpassed had employers been able to fill open positions. Going into 2019, it is estimated that local traded-sector employers have in excess of 1,500 positions available but unfilled. Roughly 500 are in the tech industry alone, and one of our largest traded-sector employers currently has 150 hard-to-fill openings. While these traded-sector jobs have been a challenge to fill, overall job growth has been incredibly robust and record-breaking. The Milken Institute *(see pages 6-8)* reports that the Bend-Redmond metro led all other small metros in the country with 19.9% job growth between 2012-2017.

While the traded-sector employment within EDCO's metrics has lagged behind our internal goals, sector-wide it has greatly outpaced state and national trends (see page 14). Manufacturing employment, for example, has grown over the past five years at nearly 8 times the U.S. average in Deschutes County and over 11 times in Redmond. This is unprecedented.

We are also seeing unprecedented capital investment in new buildings and equipment in the region – particularly in Crook County. Multi-billion-dollar investments are literally doubling the property tax base there in a very accelerated timeline. While these could be rationalized as outliers, we have also seen a gradual shift in smaller projects/companies toward more capital-intensive and less labor-intensive operations. That trend is expected to continue.

Trend Data for Business Development Deals

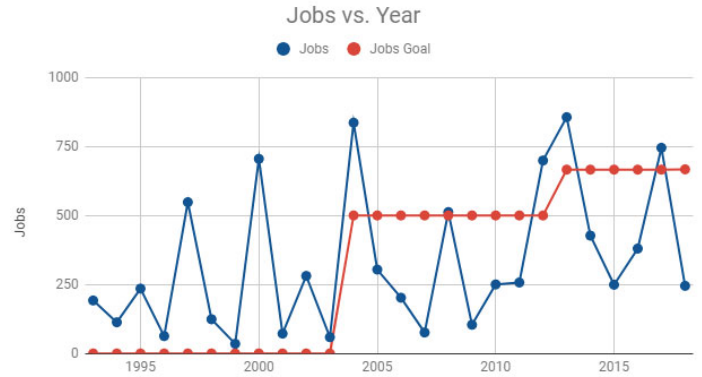
The following charts track annual trends for EDCO's business development results over a long period – 25 years. The top provides a clear picture of the inherent "lumpiness" of this work. Over the past 20 years, project completion has ranged from 60 days to 17 years with the mean being about 3.5 years.

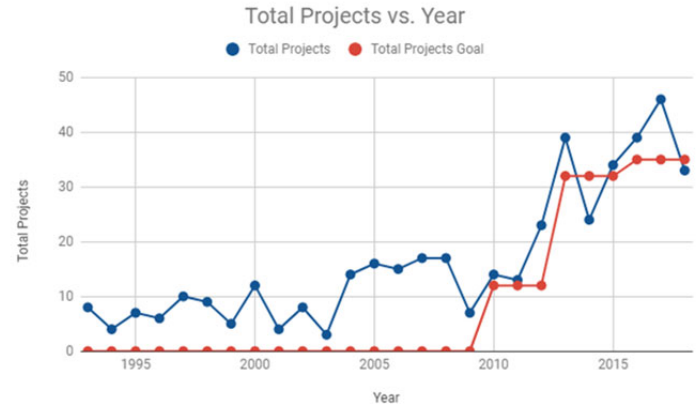
Job goals (in red) were numerically established starting in 2003, and projects in 2010. In only five years since 2003 have job goals been met or exceeded. Conversely, **project goals** since 2010 have been met or exceeded in all but two years. The middle chart clearly indicates a sustained rising trend for the number of "done deals" despite variability from year-to-year.

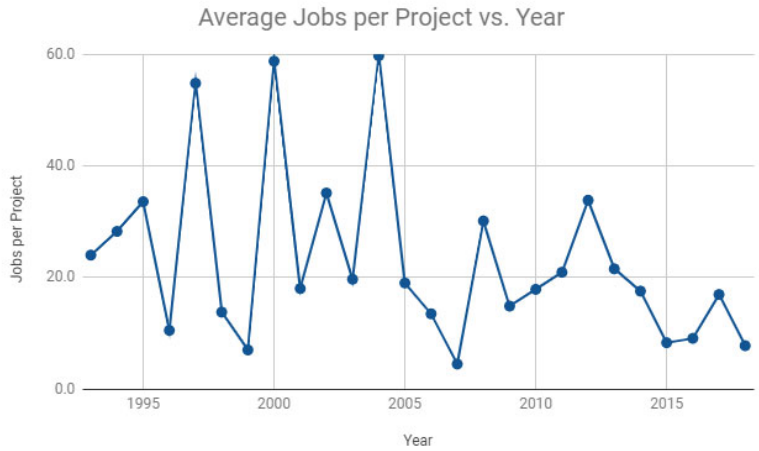
At the same time, we are seeing an evening-out of the **average jobs per project** since 2010 with a trend toward projects with a smaller number of jobs as shown in the bottom chart.

Several factors are contributing to this shift. First, entrepreneurial efforts (start) were added to EDCO's metrics in 2010. Because these are startups, job counts are naturally smaller due to the stage of business that they are in. Job headcounts can grow rapidly once these young companies get their feet under them and have success in the marketplace, which we are seeing in our grow data. Still, a project recorded as a done deal with only a few employees will have the effect of significantly reducing the average number, even with some larger job-creation results.

Second, we are seeing generally smaller deals come to fruition in the region, particularly move projects. Several factors are contributing. The dramatic decrease in vacancy rates for office and industrial space across the region and record-low unemployment rates are impacting the speed at which businesses can grow. Housing costs have had the same effect – employers have been slower in hiring the team members that they need due to a lack of affordable workforce housing.



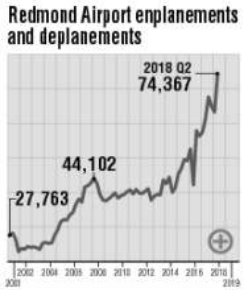


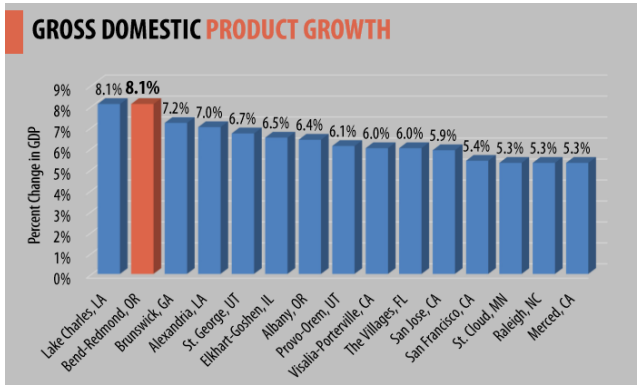


Other Noteworthy Milestones During the 2016-18 Planning Period

External

- Launch of new regional internship network that is already getting state and national attention, EDCO stands up Redmond, Sisters programs
- Achieved three consecutive (2016, 2017, 2018) #1 rankings from the Milken Institute's *Best Performing Cities Index* (Bend-Redmond MSA)
- The tri-county area's airport saw among the most dramatic passenger growth of any airport in the Western U.S.
- First mainline aircraft (737-800) to serve the region with more expected
- Tri-county was the first in Oregon to be designated as a Certified Work Ready Region (2016)
- The Bend-Redmond MSA had the *#1 fastest GDP growth in the U.S. in 2018* (8.1% - 2017 data)
- Top 10 percentage job growth in the U.S. for the MSA three years running
- Prineville in top 5 fastest population percentage growth for all micropolitan areas in the U.S.
- Forbes *#1 rank for Best Cities for Business & Careers* (2016)
- BVC becomes a top angel investment conference in the nation
- Local companies raise more than $25 million of investment capital
- Central Oregon reaches record low unemployment rates





Internal

- Event revenue grows to 23% of total EDCO budget
- Local directors have 861 meetings with existing traded-sector companies at their place of business to identify challenges and opportunities
- First Director of Membership hired, 125 new members in first 18 months
- Benefits and compensation modernized with help of an EDCO Task Force, employee turnover drops by 45%

Is EDCO Moving the Needle?

Milken Institute Index Makes a Case

For 20 years, the Santa Monica, CA-based Milken Institute has been producing an index that ranks all larger and small metros across the U.S. in what is called also called "Where America's Jobs are Being Created and Sustained". This appears to be the ideal, objective judgement on the success or failure of economic development efforts. The index, which is a relative ranking of metros to each other, has a bundle of economic performance measures that are weighted. They include:

TABLE 2 | Components of the Best-Performing Cities Index

Component	Weight
Job growth (I=2012)	0.143
Job growth (I=2016)	0.143
Wage and salary growth (I=2011)	0.143
Wage and salary growth (I=2015)	0.143
Short-term job growth (Aug 17-Aug 18)	0.143
High-tech GDP growth (I=2012)	0.071
High-tech GDP growth (I=2016)	0.071
High-tech GDP location quotient (2017)	0.071
Number of high-tech industries with GDP LQ>1 (2017)	0.071

The Bend-Redmond Metro, the only one in the tri-county area ranked by the index, has continued to strengthen position in the ranking over the past five years. Here are the 2018 results:

JOB GROWTH (2012-17)	1ST
JOB GROWTH (2016-17)	7TH
WAGE GROWTH (2011-16)	1ST
WAGE GROWTH (2015-16)	2ND
SHORT-TERM JOB GROWTH (8/2017-8/2018)	18TH
HIGH-TECH GDP GROWTH (2012-17)	15TH
HIGH-TECH GDP GROWTH (2016-17)	19TH
HIGH-TECH GDP CONCENTRATION (2017)	18TH
NUMBER OF HIGH-TECH INDUSTRIES (LQ>=1) (2017)	12TH

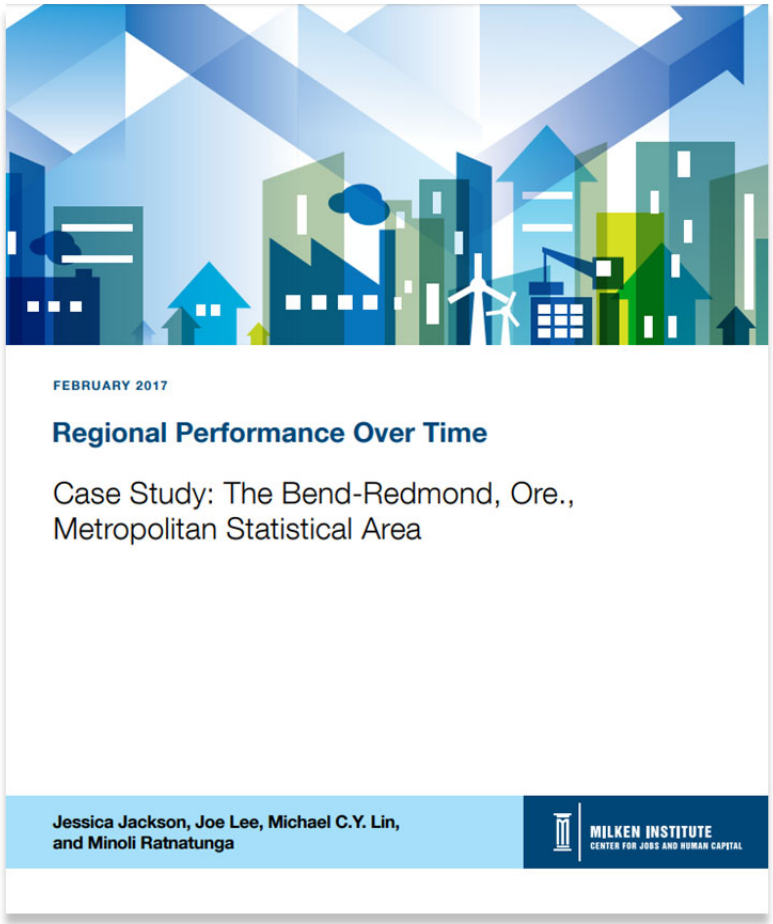
Due in part because it is an ever-changing relative comparison of a bundle of different key economic indicators, the index had never before ranked a community in the top spot for three consecutive years. It is an implicitly difficult spot to hold. Many communities may only see one Top-10 ranking in a decade while others never break out of the bottom quartile. But that is exactly what happened for the Bend-Redmond MSA in the period 2016-18.

For 2018, all index components for the metro ranked in the top 20, and #1 rankings for both five-year job growth and wage growth, #2 for short term wage growth and #7 for short term job growth certainly helped solidify the top spot. Remarkably, five-year tech GDP growth jumped 118 places to rank at #15 among its peers. We cannot forecast what will happen for the 2019 report, which should be released in the first quarter of 2020, but we continue to see strength in all of the components of economic health tracked by Milken.

Small Metro Rank	2018	2017	2016	2015
1	Bend-Redmond, OR	Bend-Redmond, OR	Bend-Redmond, OR	Fargo, ND-MM
2	St. George, UT	St. George, UT	College Station-Bryan, TX	Bismarck, ND
3	Gainesville, GA	Gainesville, GA	San Rafael, CA	Ames, IA
4	Elkhart-Goshen, IN	San Rafael, CA	St. George, UT	Janesville-Beloit, WI
5	Coeur d' Alene, ID	Wenatchee, WA	Logan, UT	Odessa, TX
6	San Rafael, CA	Elkhart-Goshen, IN	Auburn-Opelika, AL	The Villages, FL
7	Medford, OR	Yuba City, CA	Columbus, IN	Columbus, IN
8	Athens-Clark Co., GA	Bellingham, WA	Grants Pass, OR	Bend-Redmond, OR
9	Albany, OR	Columbus, IN	Napa, CA	Logan, UT
10	Logan, UT	Auburn-Opelika, AL	Gainesville, GA	Auburn-Opelika, AL

The Milken Institute research provides interesting insights not only to the structural components of our economy but also those of other places in country that consistently rank high (or not) in both the small and large metro annual indices. EDCO will be using that intelligence along with other data to identify our peer, competing and aspirational communities.

The table to the left provides a glimpse over the past four years of communities in Milken's Top 10 list. Some are very familiar, while others will require more research. Of particular interest will be Logan, UT; Auburn-Opelika, AL; Gainesville, GA, and San Rafael, CA, several of which have very strong traded-sector activity, primarily manufacturing.



In February 2017, The Milken Institute released a special case study, *Regional Performance Over Time: The Bend-Redmond, Ore. Metropolitan Statistical Area,* that looked at regional economic performance over a longer period of time. The Bend-Redmond MSA was selected, in part, because it had ranked #1 for the first year in the *Best Performing Cities Index* following a dramatic fall and rebound going into and coming out of the Great Recession. The purpose of the report is to provide insights to other communities, both domestic and international, that might be able to emulate the success elsewhere.

The 30-page case study referenced EDCO's industry diversification and business development efforts throughout. The report was broken into ten sections dealing with population, key industries, employment & opportunity, business climate, cultivating talent, housing affordability, land use and infrastructure, and quality of life with a summary of finding for each section. Overall themes from case study included:

- **Diversification comes in many forms, but successful efforts build on existing strengths;**
- **Effective collaboration can help a small region achieve big things;**
- **There is more to an attractive business climate than competitive tax rates and limited regulations;**
- **Quality of place can be leveraged to yield more than tourists and holiday homes.**

"… cooperation is a hallmark of the regional economy. Agencies work in tandem to raise the efficiency of their development efforts. The best example of such a partnership is Economic Development for Central Oregon, or EDCO. The organization is based in Bend but has offices in six surrounding municipalities that provide points of contact for businesses interested in the region. The coordination between EDCO and local governments allows for clear roles in development efforts."

Present & Future: A Picture of Central Oregon in 2022

The Central Oregon region continues to grow, outpacing all other regions of the state and most other rural and small metros across the U.S. We should expect this trend to continue with the addition of approximately 18,000 new residents over the next three years, more than 1,300 new businesses and nearly 10,000 additional jobs across all sectors. Vacancy rates for office and industrial space are at record lows, so with new buildings under construction we should see vacancy rates gradually rise closer to national averages. With the expected national economic downturn, it should be no surprise to see college and university enrollment jump, adding to growth that happened even in what is arguably the most robust economy the region has ever seen. In order to adequately house these new residents, 2,600 housing units (single family and multi-family combined) will need to be constructed. Outpaced by housing costs in recent years, income and wages are expected to grow faster than historical rates for the region, state or nation – easing, somewhat the burden renters and homeowners currently bear.

Housing construction has not kept pace with population growth

BROAD ECONOMIC MEASURES

	Where we are today	Where we expect to be at the end of 2021
	228,000 people	246,000 people
	9,900 businesses	11,300 businesses
	100,190 jobs	110,000 jobs
	Private Sector Average Wage: $35,274 - $46,420*	Private Sector Average Wage: $38,098 - $52,455
	Per Capita Personal Income*: $31,543 - $50,955	Per Capita Personal Income $32,805 - $52,276
	Industrial: 1.7% Office: 3.7%	Industrial: 3.5% Office: 4.5%
	5,340 college & university students	6,500 students
	37,406 units	40,000 units

* 2017 data

INDUSTRY DIVERSIFICATION

Where we are today	Where we expect to be at the end of 2021
19 companies 1,591 jobs	25 companies 1,674 jobs
89 companies 1,674 jobs	98 companies 1,829 jobs
28 companies 579 jobs	30 companies 633 jobs
21 companies 1,035 jobs	25 companies 1,164 jobs
48 companies 2,456 jobs	48 companies 2,493 jobs
39 companies 887 jobs	42 companies 928 jobs
60 companies 666 jobs	70 companies 728 jobs
48 companies 529 jobs	60 companies 595 jobs
34 companies 359 jobs	43 companies 440 jobs
85 companies 1,753 jobs	106 companies 2,029 jobs

Progress to create a more diverse mix of industries has been significant over the past two planning periods. Ten traded-sector industries with critical mass in terms of companies and employment are highlighted here using data pulled from EDCO's CRM database. While not representing all primary industries, these cover roughly 60% of the Central Oregon's "export-from-our-region" employers and jobs. Red, yellow and green lights indicate expected opportunity for growth and expansion through 2021. Combined, the forecast is to add 76 net new businesses and nearly 1,000 jobs across all sectors and stages of companies, accounting for attrition. Building products will experience the slowest growth rates as the red-hot housing market finds its equilibrium and manufacturers in the industry realize efficiency gains through automation. Tech will see the largest number gains in terms of jobs, companies and capital investment, while specialty food products will have among the highest percentage growth rates, given expected expansions already underway.

We've called this work other things in past strategic plans – business climate improvements, strategic projects, economic development infrastructure, capacity building – but it all distills down to preparing the region for economic success. Usually these efforts don't directly create jobs but are essential for paving the way for employment growth, diversification and capital investment that are the underpinnings for a healthy and vibrant economy.

For most of this work, EDCO plays a supporting role to other organizations to positively influence outcomes rather than taking the lead. Yet, where there is a bottleneck to progress, EDCO is quick to stand in the gap and catalyze action and forward motion.

Whenever there is effective economic development, it is the result of teamwork across organizations, businesses and government. Never is this truer than when engaging in stage-setting work. It's not perfect, but the Central Oregon region has a track record and reputation of figuring out how to unify and tackle big issues together, including: commercial air service, power supply infrastructure and public transportation with creative solutions. We will need this unity of purpose and action in full measure to succeed.

Passenger growth at RDM has been among fastest in the U.S.

SETTING THE TABLE FOR ECONOMIC DEVEOPMENT

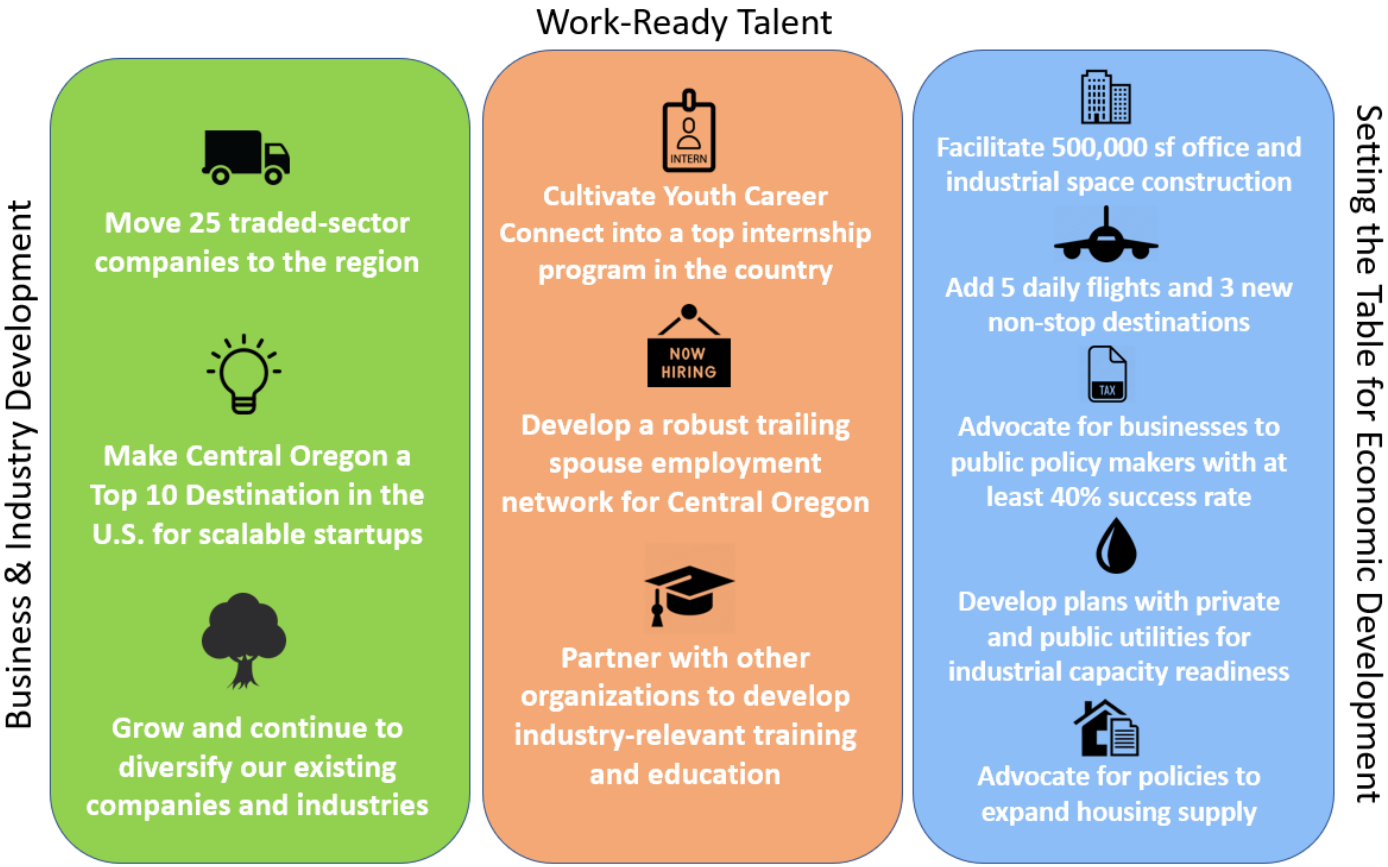
Where we are today	Where we expect to be at the end of 2021
Emerging labor force unprepared for work (600 internships for 6,000 students)	Effective regional internship program helps double available internships
Future power supply limitations	Plan for power supply upgrades thru 2038
Some cities have water, sewer capacity for industrial projects	Plan in place for all cities to have industrial capacity
25 daily flights to 7 intl. airports	28 daily flights to 10 international airports
2,500 acres industrial	3,000 acres industrial + 200 acres replenished
2.6 m sf office 5.9 m sf industrial	2.8 m sf office 6.5 m sf industrial
Local & regional transportation issues	Clear plans, funding for transportation bottlenecks
Underbuilding not meeting demand	Better information, planning between cities, counties and developers, builders

Three-Year Goals, Objectives & Actions

The picture framed in the preceding pages are the backdrop for EDCO's goals for the next three years, and likely beyond. As in the past, the organization will not expand its business development focus to include significant efforts to directly assist the non-traded sector – with some exceptions in our smallest communities. Many other non-profits and business associations fill this important role. Rather, the historical focus of EDCO to assist our traded-sector companies, in very real and substantive ways, will continue. **At the same time, if progress cannot be made to better "set the table" for economic development our business development work will fail to meet short and long-term goals.**

Time, resources and energy must be allocated to these activities over this planning horizon without compromising EDCO's greatest strength – helping businesses create jobs and successful enterprises capable of competing on a national and global scale. This comprehensive framework of goals, objectives and activities that guide the organization's day-to-day efforts act as the operational blueprint for the next 36 months.

Within the three broad goals of Business & Industry Development, Work-Ready Talent and Setting the Table for Economic Development are specific objectives. Activities for each of these objectives are broadly outlined on the following pages and operational action plans for all activities are developed internally (formally and informally) by staff with specific timelines, task assignments and key partners.



2019-21 Plan-at-a-Glance – Goals, Objectives, Tactics

Business & Industry Development

Move 25 traded-sector companies to the region

- Deploy diverse, targeted marketing and recruitment strategies – domestic and international
- Generate 350 leads annually through a variety of sources, partners
- Develop new and creative local recruitment incentives
- Achieve industrial development/ diversification targets identified in this plan (see page 11)

Make Central Oregon a Top 10 Destination in the U.S. for scalable startups

- Continue success of Venture Catalyst program
- Maintain portfolio of at least 80 promising startups that raise $40 million in investment capital, realize $100 million in revenues and grow 250 new jobs
- Grow key financial and human assets dedicated to helping young companies, specifically attracting 20 new angel investors
- Assist growth of co-working spaces, accelerators, and other collaborative aids

Grow our existing traded-sector companies and continue industry diversification

- Achieve 1,000 jobs in 10 industries forecast (see page 11 of the strategic plan)
- Meet with at least 380 local traded-sector companies annually to identify challenges & opportunities.
- Effectively manage incentive programs such as the region's five enterprise zones
- Facilitate formation of new industry groups and associations as needed/ partnering with existing industry groups

Work-Ready Talent

Cultivate Youth Career Connect into a top internship program in the country

- Continue local program leadership in Redmond and Sisters, assist regionally
- Double current number of students, employers participating by 2022
- Develop plan for financial sustainability with funding from employers and education
- Engage other organizations (i.e. YEBW, Saturday Academy, Junior Achievement, etc.)

Develop a robust trailing spouse employment network for Central Oregon

- Study successful models elsewhere in preparation for Central Oregon strategy
- Engage existing employer associations to participate
- Launch network by Q1 of 2020
- Place at least 20 trailing spouses in first year, double in subsequent years

Partner with other organizations to develop industry-relevant training and education

- Connect COCC, OSU with local industry leaders, associations for degree and curriculum development
- Partner with workforce organizations to offer more incumbent worker training/ education incentives
- Look creatively for partnerships with programs nationally to deliver regional options in Central Oregon (i.e. Apprenti, GreenFig, etc.)

Setting the Table for Economic Development

Facilitate construction of 500,000 sf of new office and industrial space

- Gather office and industrial (light, general) land inventory for the region
- Conduct developer tours throughout the region to expose market opportunities, local incentives
- As needed, develop innovative tools to help foster private investment in new spec projects
- Engage local cities, counties to reduce entitlement barriers to development

Add 5 new daily flights and 3 new non-stop destinations

- With the Central Oregon Air Service Team (COAST) meet with each major airline at least once annually to pitch new service opportunities
- Conduct periodic business outreach surveys specifically for air travel needs
- Assist RDM in securing federal grant (SCASDP) funding for new service
- Continually educate businesses and broader community of the importance of quality air service for our region and using it versus other alternatives

Advocate for businesses to public policy makers

- Educate state legislators on importance of employers to tax revenues, impact of anti-business policy-making
- Work with OEDA committee, lobbyist to support or oppose specific legislation
- Engage local cities, counties as appropriate to provide business perspective on relevant policy-making

Work with private and public utilities on industrial capacity readiness

- Assist local power utilities, BPA for long-term transmission solution for region
- Assist cities to develop water and sewer capacity capable of serving large industrial projects
- Encourage common-sense transportation improvements to reduce current and long-term traffic bottlenecks

Advocate for policies expand the regional housing supply

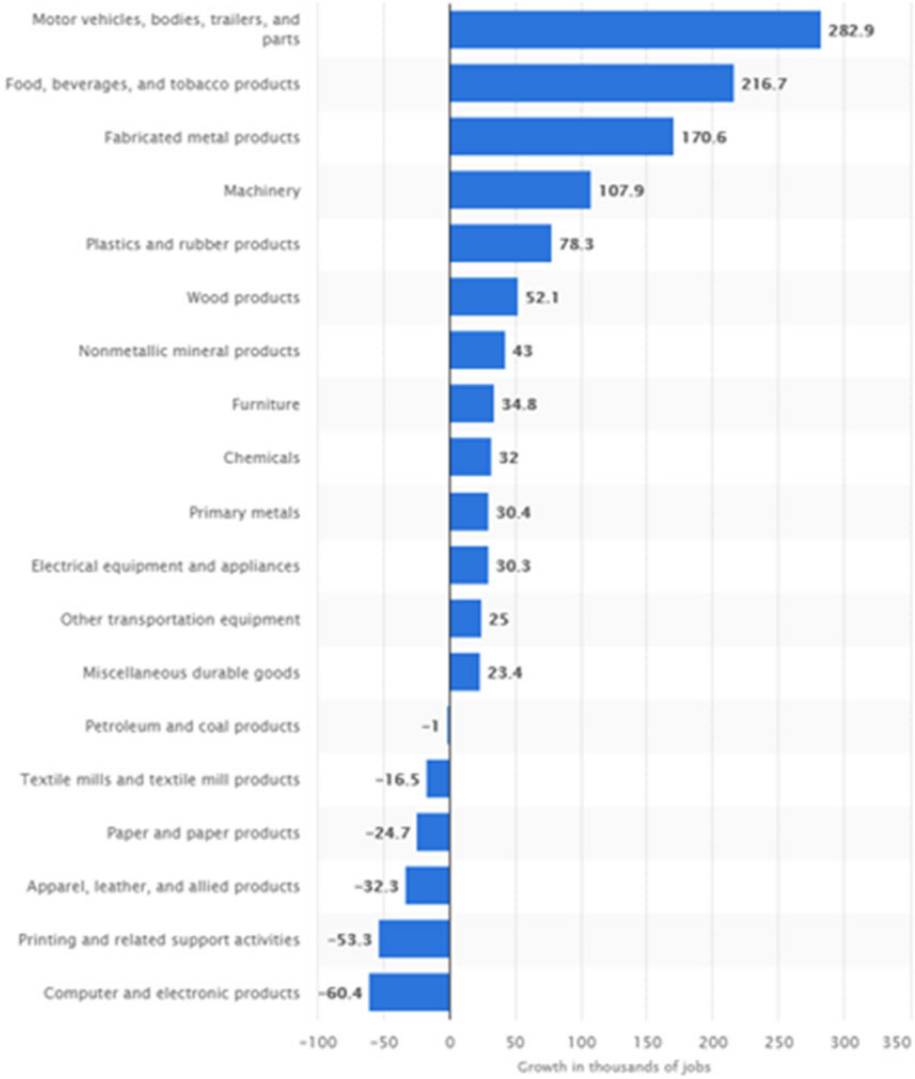
- Work with development community, cities, counties on state land use reform
- Help connect public and private decision-makers with better supply and demand data

Current National Trends

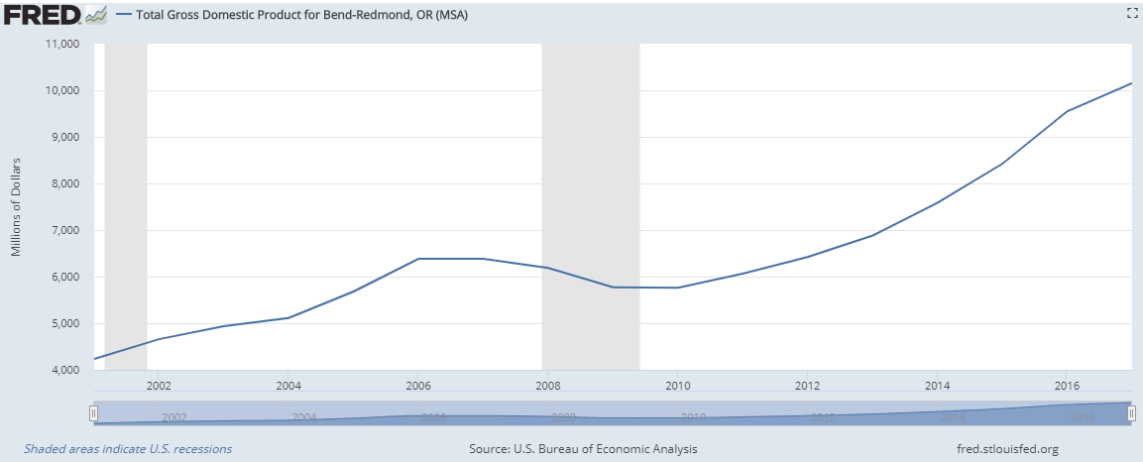
The U.S. economy continues to perform well despite impacts of an international trade war that includes many allies in Europe and North America. 2018 GDP landed above estimates at 2.9% - the last time the annual growth rate was higher dates back to 2005 (3.5%). The rate was matched in 2006 and 2015. As always, the broader economy is in a constant state of flux. Industries that showed strong growth in the past 5-7 years are different from those in the years prior. For manufacturing, the industries that showed the greatest employment growth since 2010 across the nation were automotive, food & beverage, fabricated metals, machinery, and plastics/rubber. Over the same period, computer & electronics, printing, apparel, paper, and textiles all lost net employment.

Looking to the future, New Hampshire-based Institute for Trend Research (ITR) is forecasting for slowing growth for the U.S. economy toward the end of 2019 and into 2020, before rebounding with accelerating growth rates by the end of 2020 through 2022. For ITR's "Core U.S. Economy" indicators, all are expected to experience declining growth in 2019 except for Non-Defense Capital Goods, which is expected to slip into a recession phase. By 2020, all are back into a growth phase, only to return to a similar 2019 scenario by 2022. This "soft landing" and the recovery period following is expected to be dramatically shorter than our current expansion which now stands at 117 months (the longest post-WWII record is 120 months). ITR forecasts that 2023 will usher in another "hard landing" recession, with recovery following, prior to a 2029-30 start of a decade-long global depression. If this long-range forecast comes to pass, now is certainly the time to double-down and prepare our region and communities for economic conditions not seen for 100 years.

Industry contribution to manufacturing job growth in the United States from 2010-2017 (in units of 1,000 jobs)



Current Regional Trends



By many measures, the overall economy in the Central Oregon area has never been better. GDP growth, for the Bend-Redmond MSA (Deschutes Co.), has been among the highest in the U.S. for a number of years and ranked #1 in 2017 (2016 data) with 8.1% annual growth. Since 2010, GDP in the MSA has nearly doubled and is outpacing all other Oregon metros.

Similarly, population growth in the MSA – led by in-migration – is also consistently in the Top 15 annually in the U.S., ranking #6 in 2018 (2016 data) and #12 this past year. Over the past four years, no city made the Top 15 list four years in a row, and only seven cities for three of the past four years, including Bend. The entire tri-county region has roughly 5.4% of the state's residents, yet we are generating more than 10% of the state's population growth. Last year, Prineville was ranked by the Census Bureau as the 4th fastest-growing population for all micropolitan areas in the country, with a 3.5% increase. The previous year it ranked #3.

Unemployment has reached record lows. According to the Oregon Employment Department, eight years ago there were 20 job seekers for every open position. Today there is less than one applicant for every advertised job. More importantly, the region has led the state and nation in job growth, creating nearly 10,000 new jobs since January 2016. EDCO client companies comprised roughly 15% of that growth over the time period with an estimated 1,500 jobs in the traded-sector currently unfilled – 500 in tech alone. Redmond, a growing center in the region for blue-collar jobs, saw 81% growth in manufacturing employment between 2010-16 and 85% growth in manufacturing wages over the same period. Deschutes County, as a whole, was not far behind with 58% growth in manufacturing jobs compared to 19% in Oregon and only 7.2% for the U.S. While EDCO's focus is not exclusive to manufacturing, this data is a clear and objective indicator that our work is making a difference and having an impact.

Year-over-Year 15 Fastest Growing Cities in the U.S.

2014 Rank	2015 Rank	2016 Rank	2017 Rank	Area Name	State	2017 % increase	2017 Total Population
NL	4	2	1	Frisco	TX	8.2	177,286
NL	2	9	2	New Braunfels	TX	8.0	79,152
NL	11	NL	3	Pflugerville	TX	6.5	63,359
NL	3	14	4	Ankeny	IA	6.4	62,416
NL	15	7	5	Buckeye	AZ	5.9	68,453
NL	1	5	6	Georgetown	TX	5.4	70,685
NL	NL	NL	7	Castle Rock	CO	5.1	62,276
NL	NL	NL	8	Franklin	TN	4.9	78,321
NL	NL	3	9	McKinney	TX	4.8	181,330
NL	NL	13	10	Meridian	ID	4.7	99,926
NL	NL	NL	11	Flower Mound	TX	4.3	76,681
7	**NL**	**6**	**12**	**Bend**	**OR**	**4.3**	**94,520**
NL	NL	12	13	Cedar Park	TX	4.2	75,704
NL	NL	NL	14	Doral	FL	4.2	61,130
NL	12	15	15	Fort Myers	FL	4.2	79,943

NL = Not listed in Top 15, Source: U.S. Census, populations 50,000 or more

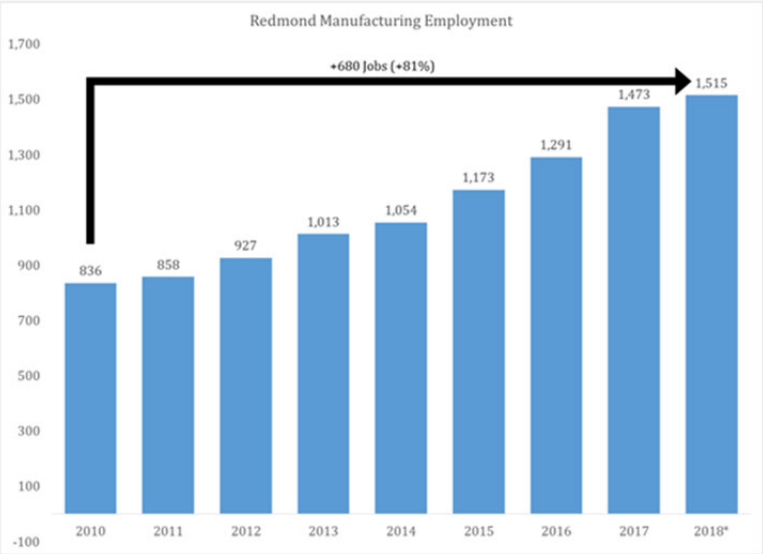
Manufacturing Employment Growth 2010-2016

Redmond: 81%

Deschutes County: 57%

Oregon: 19%

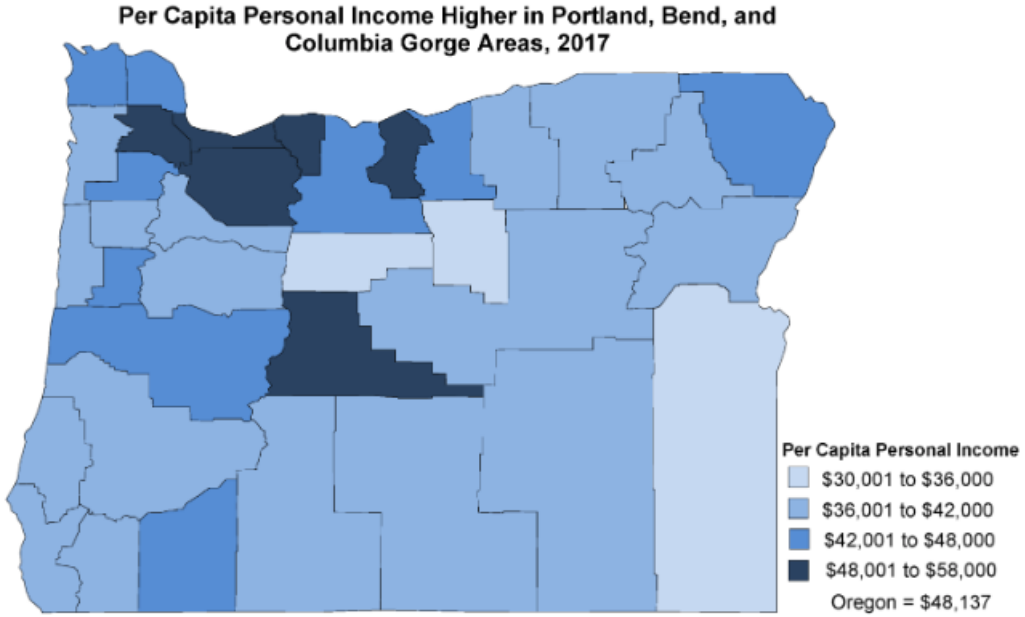
U.S.: 7.2%



Industry diversification, a long sought-after goal for the tri-county area, has seen more progress than ever in the region's history. The region has seen sustained growth across a wide range of traded-sector industries as partially represented on page 11.

With some critical mass obtained, employers in these sectors can enjoy the benefits of a shared supply chain, talent pipeline, educational services, and even distribution. In addition, specialty food manufacturing, aviation/aerospace, building products and administrative centers/HQ offices have also seen gains, albeit more modest, in recent years.

Despite these positive trends, progress on realizing economic prosperity has not been uniform across the tri-county region. On one hand, Prineville has been a model example of a rural, historically natural-resource dependent community successfully adapting to changing economic conditions and diversifying with new industries that have no historical presence. In May 2010, unemployment in Crook County peaked at 19.6% (highest in Oregon), but by August 2018, hit a record low of 5.4%. Just with projects EDCO is engaged with in Prineville/Crook County, it is estimated that the taxable value of property there has doubled over the past five years, and the area accounts for more than 75% of total capital investment of our "done deals".



On the other hand, both unincorporated places and incorporated cities in Jefferson County are not seeing similar investment or diversification. Culver and Metolius are specifically challenged with urban growth boundaries that are entirely encircled by some of the highest value farmland in our region. Still, year-over-year population growth in Jefferson County overall, consistently ranks in top 20% in the state. Per capita personal income, which is still widely divergent across the region, ranges from a high in Deschutes County of $50,955 (ranking 5th of Oregon's 36 counties) to a low of $31,543 for Jefferson (ranking 35th).

Central Oregon's Unique Assets

The region has several competitive advantages that make it unique and can be leveraged for economic development including:

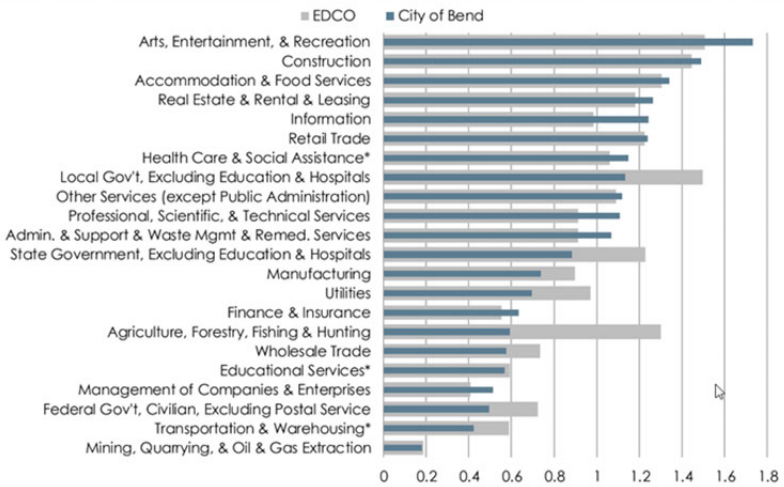
- A high concentration of PhDs, engineers and scientists with expertise in pharmaceutical research – specifically compounds, membrane exchange and reformulation, solubility, and spray-try technology
- A high percentage of in-migrating residents come with significant education, industry experience and often, financial resources
- Population in-migration, which has been largely sustained for more than two decades, is driven largely by personal choice rather than for job opportunities. This conscious "lifestyle choice" driver for many new residents creates a unique "stickiness" to our workforce/talent base – people are less likely to move elsewhere for career opportunities so turnover, in general, is dramatically lower across the region.
- The building products industry, much of which is centered around secondary wood products manufacturing, still represents the region largest traded-sector industry in terms of employment and largest manufacturers
- Remarkable critical mass in the outdoor gear & apparel industry has been achieved in recent years from the formation of Oregon's trade association headquartered in Bend (Oregon Outdoor Alliance), to the nation's first business accelerator dedicated to outdoor companies (Bend Outdoor Worx), the nation's first university undergraduate program for outdoor products development, and the newly created Office of Outdoor recreation which is also based in Bend.
- An estimated 3.5 million people visit the region each year – roughly 14 times the region's population. Those visitors support amenities (restaurants, entertainment, retail, accommodations, health care, etc.) of a larger metro that are enjoyed by local residents and are a meaningful part of the "lifestyle choice" trends noted above.

INDUSTRY CONCENTRATION (LQ)

NAICS Code & Description		City of Bend	Bend MSA	EDCO	Oregon	US
71	Arts, entertainment, & recreation	**1.73**	**1.66**	**1.51**	0.97	1.00
23	Construction	**1.49**	**1.54**	**1.45**	0.99	1.00
72	Lodging, restaurants, & bars	**1.34**	**1.35**	**1.30**	1.01	1.00
53	Property sales & leasing	**1.26**	1.28	1.18	1.00	1.00
51	Information	1.24	1.03	0.98	0.95	1.00
44-45	Retail trade	1.24	1.29	1.22	1.01	1.00
62	Healthcare & social assistance*	1.15	1.12	1.06	0.98	1.00
9039	Local government	1.13	1.19	**1.50**	1.12	1.00
81	Personal & other services	1.12	1.06	1.09	1.08	1.00
54	Professional services	1.11	1.01	0.91	0.87	1.00
56	Administrative & support services	1.07	0.99	0.91	0.86	1.00
9029	State government	0.88	0.93	1.23	**1.80**	1.00
31-33	Manufacturing	0.74	0.81	0.90	1.18	1.00
22	Utilities	0.69	0.91	0.97	0.64	1.00
52	Finance & insurance	0.63	0.59	0.55	0.73	1.00
11	Agriculture & forestry	0.59	0.73	**1.30**	**2.50**	1.00
42	Wholesale trade	0.58	0.59	0.73	0.98	1.00
61	Education*	0.57	0.58	0.59	0.91	1.00
55	Corporate & regional offices	0.51	0.45	0.41	**1.57**	1.00
901199	Federal government (civilian)	0.49	0.56	0.72	0.72	1.00
48-49	Transportation & warehousing*	0.42	0.54	0.59	0.84	1.00
21	Mining (incl. oil & gas)	0.18	0.17	0.19	0.22	1.00

*Includes related public-sector employment (e.g., education includes public schools, colleges, and universities; healthcare includes public hospitals; and transportation and warehousing includes US Postal Service workers)
Source: EMSI 2018.1 – QCEW Employees, Non-QCEW Employees, and Self-Employed
Notes: LQs greater than 1.25 are presumed to show competitive advantage and are highlighted.

INDUSTRY CONCENTRATION (LQ)



*Includes related public-sector employment (e.g., education includes public schools, colleges, and universities; healthcare includes public hospitals; and transportation and warehousing includes US Postal Service workers)
Source: EMSI 2018.1 – QCEW Employees, Non-QCEW Employees, and Self-Employed
Notes: LQs greater than 1.25 are presumed to show competitive advantage and are highlighted.

Local and State Headwinds to Economic Development

With industry diversification, population in-migration, and among the strongest job creation gains in the nation, comes growth pains. These include:

Workforce

Despite very strong population in-migration, job growth has outpaced the available workforce in most parts of the region, especially in specific sectors. In many cases the available workforce does not possess the right education or work experience to fill vacancies. Both ends of the spectrum - over and under qualification – are at play. For the first time in 20 years, Central Oregon is starting to realize sizeable wage gains as employers raise the ante to attract quality talent. In the past, our steady in-migration was a mitigating factor for wages – a simple supply and demand example of more people looking for work here than there were jobs available. But steady employment gains coming after the Great Recession have created a relative glut of jobs (perhaps EDCO did its job too well?) that employers, traded-sector or not, are struggling to fill. This creates a very difficult environment in which to attract new companies, unless those employers have average wages in excess of our existing market. For some existing manufacturing and tech companies, they are looking at options for lower-cost markets as their respective companies grow.

Housing

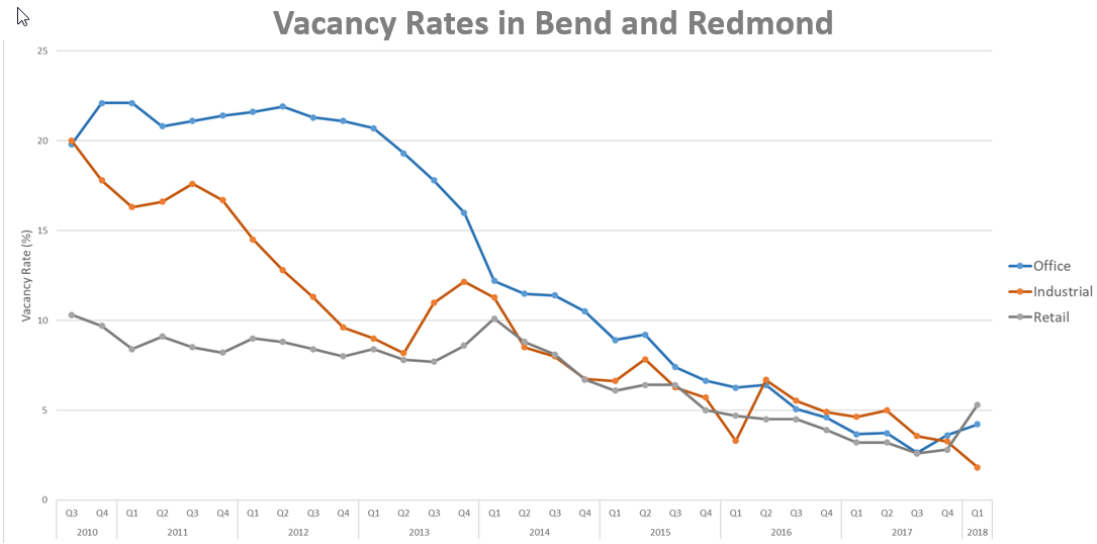
Going hand-and-glove with available workforce concerns expressed by employers are double-digit increases of average home prices over the past five years in many of Central Oregon's communities. There are many stories from the private and public sectors where a job was offered to an out-of-region applicant only to be turned down due to the lack of (affordable) housing options. A number of factors are at play, and our region mirrors similar trends happening across the U.S.

With the painful memory of the Great Recession still fresh in the memory of many developers, home builders and subcontractors, the industry is simply not expanding to meet demand. This supply imbalance is due to several factors, including:

- striking increases in contractor and sub-contractor wages due to fewer young people entering the construction industry in the face of a rapidly aging labor force;
- lack of standard debt capital for spec homebuilding, which has been replaced by "hard money" from private investors with an interest rate often double that of bank financing – which has a dual effect of increasing builder costs (which are simply passed on to the homeowner) and holding back the number homes/apartments built; and
- limited supply of buildable land for residential units, which has pushed lot prices again in the six-figure range in Bend, Sisters and Sunriver – and become a leading component of price increases.

Built Environment

Vacancy rates for industrial, commercial and office space are actively tracked in Bend and Redmond and have decreased from 20-25% to 1-3% in the past eight years. Between 2008 and 2016, virtually no new spec industrial or office space were constructed, so in the face of the same cost and labor challenges for residential builders, new commercial build costs and the corresponding lease costs are coming as a shock to industrial and office users. The lack of inventory of built space is a serious impediment to economic development in that the vast majority of businesses prefer to occupy an existing building than go through the process (even with a developer of build-to-suit) of new construction. A well-know adage of economic development is that 85% of companies looking to move, start or grow are looking for existing space, yet 85% of communities are offering bare land. Today, that describes the Central Oregon region.



Some progress is being made in Bend and Redmond for new spec industrial and office space, but for nearly all other communities in the tri-county region there virtually no available buildings to locate new or growing companies. Experience tells us that these communities will struggle to grow traded-sector jobs more than their counterparts that have available space and that same reality applies to our region vis-à-vis other parts of the country.

Policy Making

Primarily a statewide issue, policy-making in our state Capitol has for the past 6-8 years been an increasing headwind for business attraction, retention and growth of our existing companies. Added rules, regulations and costs resulting from new laws around de-linking from the federal tax code, minimum wage (among the highest in the nation), mandatory sick leave, predictive scheduling, mandated pay equity, and other employment laws are a growing concern – both from a cost and compliance perspective - for private employers. Increased business taxes in the form of general fees, a new gross receipts tax scheme or higher corporate income taxes will no doubt be a theme for the 2019-20 Oregon legislative session and beyond. For business owners that have relocated from California (often with EDCO's help), many see these changes as a steady erosion of the business climate that caused them to move to Oregon. Some are looking for greener, more business-friendly pastures and others have already left or shifted growth to communities in other states.

In the wake of budget shortfalls due to the PERS unfunded liability (despite record tax revenue), state policy-makers are increasingly viewing the most effective economic development tools as liabilities to state funding rather than assets with the ability attract jobs and personal income, which currently comprises more than 86% of state general fund revenues. The powerful union lobby in western Oregon has also convinced lawmakers to impose "prevailing wage" clauses for both state and local incentives, meaning that if certain dollar levels are exceeded, private construction projects must pay Davis-Bacon wages typically only required of public entities. For example, excluding property tax exemption savings, projects in Oregon are limited to less than $750,000 in total "incentives" to avoid triggering prevailing wages, the added cost of which usually exceeds the total value of the incentives. This includes even loans from Business Oregon, the state economic development department. Consequently, Oregon communities are funneled into competing for small job-creation projects while larger, game-changing deals go to communities in the South, Southeast and Midwest regions.

Incentives

By standards in the western U.S., Oregon has a relatively robust number of effective economic development tools, mostly clustered around incentivizing job-creating capital investment. By national standards, Oregon's incentives overall are very conservative and, in many cases, simply uncompetitive. This situation is unlikely to change in the near future, and we should expect no new economic development tools on a statewide basis to be created in this current planning horizon.

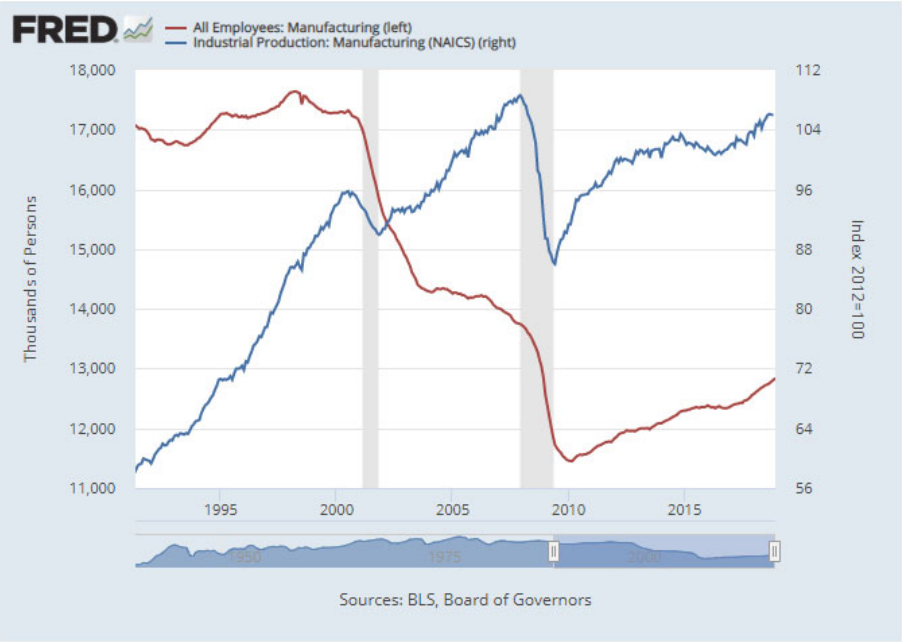
Macro Headwinds

National Business Cycle

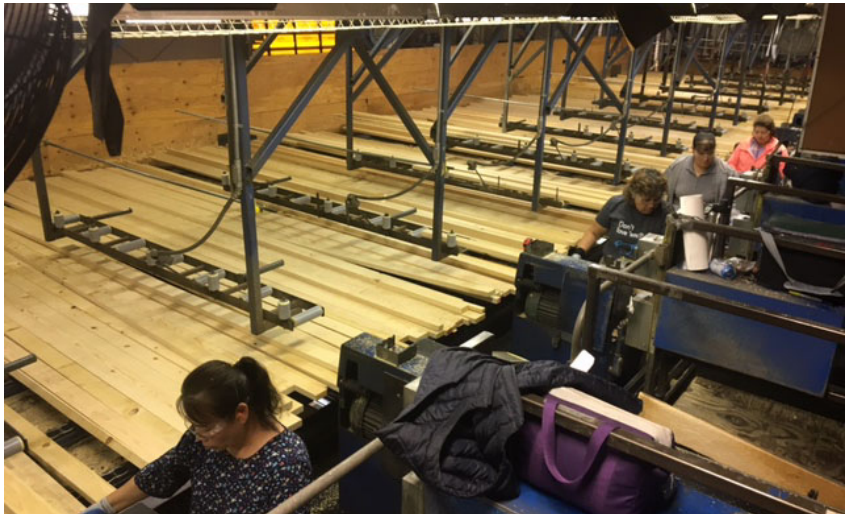
While EDCO relies on the breadth and accuracy of the economic forecasting of the Institute for Trend Research (ITR), most economists now are agreeing with ITR's longstanding forecast for a mild recession in late 2019 into the first half of 2020. This falls squarely in the 2019-21 planning horizon for EDCO and it's expected results. Consequently, it should be anticipated that the national economic downturn will impact EDCO's ability to move, start and grow traded-sector companies in the tri-county region. With visible progress on diversification, how severely or mildly Central Oregon will be impacted is an open question. All indicators are that we should fare better than the Great Recession relative to the U.S., and potentially have a soft landing much as happened in the eight-month national recession in 2001.

Historical Focus on Manufacturing

EDCO, like most of our counterpart organizations across the country and abroad, naturally has manufacturing as a large component of our current portfolio of projects. And, while there has been remarkable success on this front, we are competing for an ever-smaller share of jobs in the broader economy. The chart to the right dramatically illustrates the reality that between 1989 to 2010, the U.S. lost a total of nearly 7 million manufacturing jobs. In fact, the difference in U.S. manufacturing jobs is less than 500,000 between today and 1950. Offshoring production and productivity gains (i.e. automation) were both major contributors, however the former is a trend that reversed 30+ years of U.S. manufacturers migrating labor from their products to other, lower-cost countries. At the same time, we are producing more products (or value) than ever before. Rising labor costs elsewhere (particularly Asia), quality issues and supply chain complications combined with years of nearly non-existent wage inflation in the U.S. and consistent productivity gains made American manufacturing labor competitive globally – for some, not all products. The fact remains that there are more communities, more organizations like EDCO across the country that are vying for manufacturing employment jobs than ever. And many of those places have robust incentives to win the ever-more competitive race for jobs.

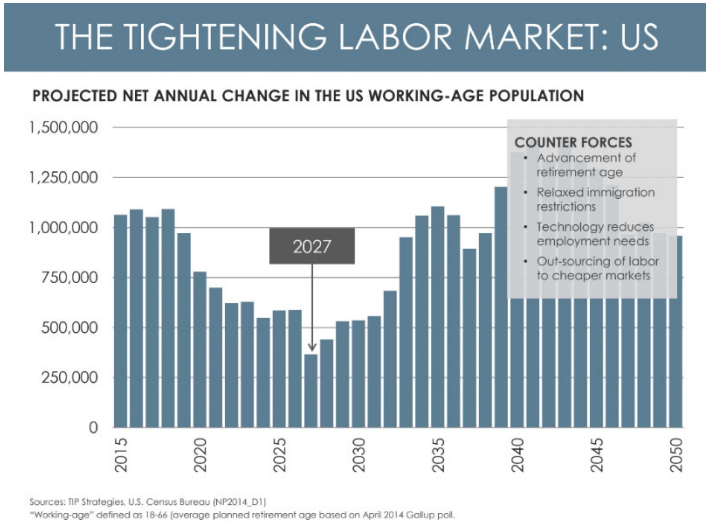


Automation, Robotics, Machine Learning, and Artificial Intelligence



A cutstock line at a local wood product company that will be automated in 2019

The fact that we are producing more today with less labor than ever before is not a new trend, but one that most experts agree is accelerating, due in no small part to advances in computing, electronics, additive manufacturing, and the relative low cost of these technologies to what they have been in the past. For example, product assembly robotics have been the standard in some industries (automotive, aviation, semiconductor) for decades. Today, this technology has become cost effective for even small manufacturers. Traditionally, we've seen productivity gains in overall manufacturing output in the U.S. (and our region) continue to push upwards with just a fraction of jobs required in the past (see chart above). Automation and robotics have played big roles, and will continue, however more structural changes to how work is done will come to other employment sectors such as professional services, hospitality, energy storage, health care, and education via AI (artificial intelligence) and machine learning. And while the convergence of new, often mobile, technology and affordability will create new employment opportunities (for those who have the right training/knowledge/skills), we should expect that entire swaths of employment to be made obsolete at a pace which we've not experienced before.

Aging Workforce, Forecasted Shortages

Central Oregon is not immune to these national trends – here, too, Baby-boomers are retiring and the relatively smaller populations of the generations that follow will create an increasingly tight labor market through 2030. This trend is especially acute in manufacturing, however high technology, bioscience and aviation/aerospace are seeing an aging of their workforce as well. Balancing this macro trend in our region is steady population in-migration, many of which are working age. Despite this fact, our employers will have to be more creative about attracting and retaining talent, while at the same time finding new ways to cut labor out of their processes. For EDCO, an organization for which one of its key performance indicators is new jobs, this poses clear challenges.