POLICY PLAYBOOK

AND INITIATIVE GUIDE

GAINING SUSTAINABLE ADVANTAGE

5th ANNUAL
LEADERSHIP SUMMIT
January 4, 2007

Oregon Business Plan.org

CONTENTS

INTRODUCTION

This document contains the Oregon Business Plan's broad strategy and specific initiatives for 2007. We call it the *Policy Playbook*. It is intended to serve as a reference for Oregon's business and elected leaders on the main issues discussed at the January 4, 2007 Leadership Summit and in policy discussions the remainder of the year. The policy work in here was shaped by hundreds of Oregonians across the state.

Policy Playbook is a fitting name because 2007 is a new game in Oregon policymaking. The state enjoys a vastly improved economy and robust revenues, and there are many new faces in both state and federal legislative chambers. This is also a new game for the Oregon Business Plan. The past four years, the Plan has proved to be an effective cooperative process for shaping economic policy. Heading into our fifth year, however, the Steering Committee decided this would be a good time to assess and refresh our efforts. As part of that effort, we considered what Professor Michael Porter had to say about Oregon's competitive prospects in his address to last year's Leadership Summit.

This year's Oregon Business Plan examines sustainability as a unique Oregon strength and potential long-term competitive advantage.

As last year's audience will recall, Dr. Porter challenged the Business Plan and Oregon to develop a distinct competitive advantage that complements the Business Plan framework, our industry cluster network, and our culture of innovation. Porter suggested sustainability as a competitive strength for Oregon, noting that the state already has an international reputation as a leader in sustainability. It's true. Sustainability is woven into the fabric of our public policy, many of our products and services, and the business practices of our industry clusters and individual firms. Therefore, we present a section here on the potential of making sustainability a competitive advantage for Oregon and a part of the Business Plan.

The bulk of the *Policy Playbook,* which is summarized overleaf, contains high-priority initiatives and specific recommendations shaped by business groups participating in the Oregon Business Plan. All are designed to improve Oregon's competitive strength. The groups have made these recommendations based on independent assessment and consultation with public officials, in particular the Governor and legislative leaders.

This document presents an ambitious agenda for 2007 and beyond. Oregon has many needs, some unresolved for far too long. For the first time in a long while, Oregon has sufficient revenues to make needed investment in services such as education, to reinvest in deferred infrastructure needs, and – just as importantly – to build up a more robust rainy day fund to tide us through economic downturns. We hope this book will make a significant contribution to the game plan for keeping Oregon on a strong competitive track.

PLAYBOOK SUMMARY

OREGON'S economic resurgence the past four years suggests that the state is on track toward the central vision of the Oregon Business Plan, an economy "defined by thriving businesses that lead their industries in ideas, innovation and design, market reach, and staying power."

However, in the face of intense global competition, this is no time for complacency. Oregon needs to continue to pursue the competitiveness agenda that has become known as the Four Ps for prosperity – pioneering innovation, people, place, and productivity. Solid work on Oregon Business Plan initiatives over the past four years has strengthened our competitive position.

As we pursue our vision and strategy, we need to ask ourselves, What makes Oregon special? What distinct aspect of Oregon life will give us special competitive advantage and guide our work in the years ahead. At last year's Leadership Summit, Dr. Michael Porter suggested that Oregon's reputation for sustainability could be turned into a long-term advantage. We agree. Oregon has a head start in sustainability, buoyed by abundant talent in our private sector, in our universities, and in our public and nonprofit sectors.

Our opportunity and challenge is to weave concepts of sustainability throughout the Business Plan. In the near term, the sustainability agenda is most obvious in the innovation initiative (Section 3) and in existing initiatives on forest health, regulation, land-use, and Brand Oregon. However, we also need to take a hard look at energy, water, and waste-water systems, all of which will be explored in the year ahead (Section 8).

In addition, Oregon needs to pursue a wider set of initiatives vital to long-term competitiveness within the Four P framework.

- Education and workforce systems must be overhauled if we hope to increase the level and quality of education attainment, which we must do. This is Priority #1 for 2007 (Section 5).
- Health care in Oregon and the United States is much more expensive and much less accessible than in other nations. There are near-term steps we can take to improve the system. We should prepare for broader change in the near future (Section 6).
- Oregon's transportation infrastructure faces a backlog of unmet needs, growing demand, and uncertain funding. We need near-term action to add funding. And as with health care, we must change how we manage and pay for transportation in the long term (Section 7).
- Oregon's public finance system is highly volatile. We must increase the size of the stability fund while pursuing efforts to improve budgeting, to review employee compensation, and to modify the tax structure (Section 4).

The Oregon Business Plan is always receptive to new initiatives that will advance its vision and strategy. Several have been proposed and will be considered in the coming year (Section 8).

1. WHERE WE STAND STARTING 2007

Oregon's economy has rebounded strongly since our first annual Leadership Summit in December 2002. Because that initial summit and all that followed were focused on long-term prosperity, rather than short-term recovery, the vision of the Oregon Business Plan is as fresh and relevant today as it was then. Now, as then, the Business Plan asks Oregonians to *Step Up* – to pursue a future "defined by thriving businesses that lead their industries in ideas, innovation and design, market reach, and staying power."

Now, as then, the Business Plan envisions "Oregon in fact and reputation as a state unique in its passion and ability to nurture clusters of innovative industries. This includes clusters we have already, those we can attract, and those we can build from scratch. It includes clusters in new technologies as well as traditional industries producing new products in new ways."

To support that vision the Plan asks Oregon to pursue a balanced and comprehensive strategy that will enable existing industry clusters to thrive and new clusters to emerge. The strategy calls for nurturing and achieving what we call Four Ps for Prosperity.

- **Pioneering Innovation** – a culture of research, innovation, entrepreneurship
- **People** – well-educated, capable people and education systems to sustain their skills
- **Place** – quality of life, good public services, attractive communities and environment to retain and attract talented people
- **Productivity** – good physical infrastructure and resources, reasonable business costs.

OREGON BUSINESS PLAN FRAMEWORK

GOAL

Quality jobs for Oregonians

VISION FOR THE ECONOMY

Develop leading-edge traded sector industry clusters

STRATEGY – FOUR Ps FOR PROSPERITY

- Pioneering Innovation
- People
- Place
- Productivity

INITIATIVES TO IMPROVE THE FOUR Ps

(Such As:)

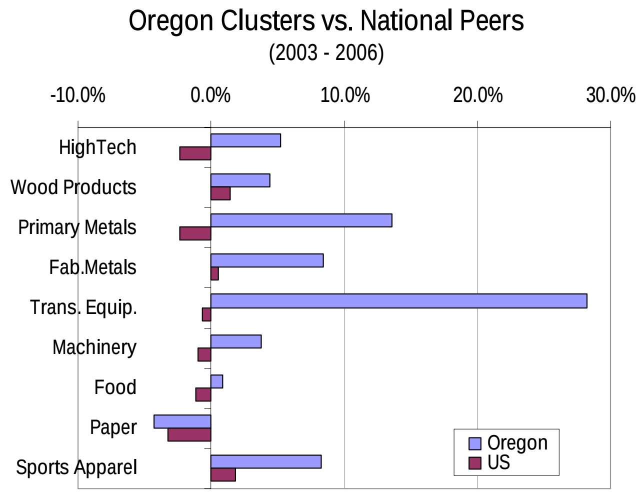
- Economic Innovation
- Public Finance
- Education/Workforce
- Health Care
- Transportation

Even in the depths of the recession, the Oregon Business Plan saw great opportunity for Oregon. The plan documented that clusters of Oregon businesses were leading globally in their industry. From semi-conductors to forest products, from transportation equipment to agriculture, from sports apparel to display technology, Oregon industries were at the leading edge of product innovation and process improvement. Our opportunity now – as it was then – is to support these industries by setting the conditions for sustainable growth. These industries, in turn create high-wage jobs that resist migration, and they generate revenue from sales outside our state to support wider community prosperity.

Riding a Robust Economy

Our industry clusters have largely followed the course envisioned in *Stepping Up,* the first edition of the Oregon Business Plan. Oregon is growing robustly. In the 12 months through October 2006, Oregon recorded the eighth fastest employment growth, 2.9

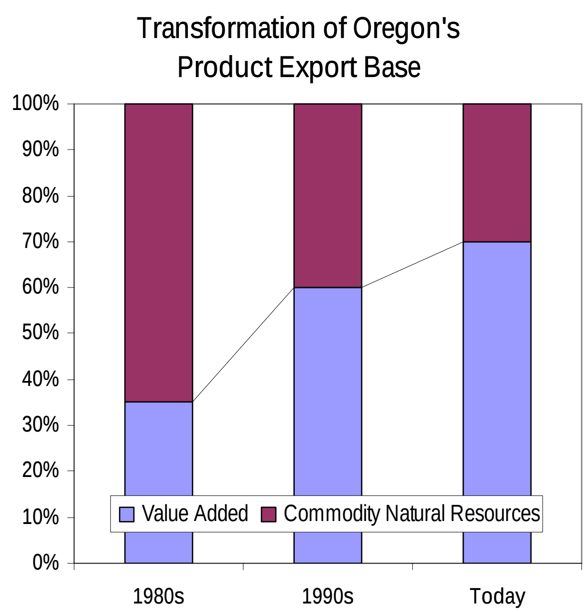
percent, of the 50 states. Our unemployment rate, above a nation-high 8.5 percent in 2003, has been trending down and was 5.3 percent as recently as November. As shown in the adjacent figure, our industry clusters are performing much better than their counterparts nationally.



Note: Sports apparel data 2003 through 2005.

Our productivity is high, especially in critical industry clusters. Value added per worker is 46 percent above the national average in frozen fruit and vegetables, 27 percent above the national average in saw lumber, 18 percent above the national average in instruments, and more than four times the national average in semiconductors. Value added lags in some industries: output per worker in computer peripherals and softwood plywood are below the national average.

Our value added exports continue to grow. Total exports are up 25 percent over the same quarter a year ago, and are projected to be nearly $15 billion in 2006, up from $12 billion in 2005. Today, value-added exports of computers, machinery, transportation equipment and metals account for 70 percent of Oregon exports, and grew 35 percent over the past year. The traditional mainstays of Oregon's export base (farm and food products, wood and paper) today account for only 16 percent of Oregon exports, and their value is up about 1.5 percent from a year ago.



Oregon is also doing well in new company formation, one of the principal ways that economists measure entrepreneurial energy. We ranked ninth in the number of new businesses formed per 1,000 workers at 8.6. Another measure of startup activity is venture capital investment. Venture capitalists invested $159 million in new Oregon ventures through the third quarter of 2006, the highest rate since the dot com boom.

One area of continuing concern is Oregon wages and incomes. Oregon wages continue to lag behind the national average by about 10 percent. The state made up some of the differential during the boom of the 1990s, but beginning with the 2001 recession, average wages slipped relative to the nation. Through 2005 – the latest period for which data are available – average Oregon wages have stabilized at about 89.5 percent of the U.S. average, ranking Oregon 27th in average wages per worker.

The economic recovery is good news for public services, which took a beating in the recession along with the private sector. Government leaders made tough fiscal choices, just as business leaders did, and now the revenue outlook is much brighter. The 2007 Legislature should have as much as $14.8 billion for the upcoming biennium, nearly 19 percent more than the current budget. After years of painful cuts we can look forward to restoring services and making much-needed investments in Oregon's future.

Finally and perhaps most importantly, Oregon has achieved a remarkable degree of progress on the specific initiatives identified as priorities in the Oregon Business Plan. The scorecard at right highlights just a few of the initial wins. Public leaders deserve thanks and congratulation for their key roles in many of these accomplishments. This work sets the stage for even more productive accomplishments in the years ahead.

SAMPLE OF INITIATIVE SUCCESSES

- √ Fix PERS
- √ Refocus economic development
- √ Strengthen engineering/science education
- √ Launch nanotechnology center
- √ Upgrade Oregon roads and bridges
- √ Achieve federal forest health bill
- √ Increase need-based postsecondary student aid
- √ Improve international air access
- √ Expand supply of shovel-ready industrial land
- √ Launch Brand Oregon

The Opportunity Ahead

At last year's summit, we asked Harvard professor Michael Porter, an international authority on competitiveness, to review our work and make suggestions for improvement. While he praised the Business Plan, in particular the level of collaboration among elected officials and business leaders, he offered several suggestions to strengthen the effort:

- Shift the emphasis from mitigating weaknesses to defining a unique position for the Oregon economy.
- Maintain the momentum of the competitiveness effort and avoid fatigue.
- Clarify and simplify the organizational structure.
- Create a framework for cluster-based organizations.
- Better mobilize universities.
- Create measures to track the impact of competitiveness programs and the progress of clusters.
- Coordinate efforts with neighboring states.

These recommendations are a useful checklist four years into the Oregon Business Plan effort. When things are going well, as they are now, it is tempting to become complacent. Economic issues seem less pressing and call for less intensive action. Yet, this is just the time – when we have the advantage of playing offense rather than defense – to act on our long-range economic interests. During the good times, if we make the right moves on critical policy issues and public investments, we can continue to grow in a way that raises wages and incomes and provides more resources for the future. Our economy faces

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unrelenting global competition, so our efforts must be equally persistent, smart, and strategic. While Oregon has made progress since the first Leadership Summit, we still have a great deal to do.

Rainy Day Vigilance

The painful fiscal roller-coaster ride of the past five years reminds us that the national economy plays a fundamental role in shaping Oregon's fortunes. Our progress over the past three years is welcome, but has not made us invulnerable to national economic cycles, and our revenue system remains the most sensitive to recessions. The Business Plan, therefore, supports careful consideration of long term policies that would lessen Oregon's heavy reliance on the personal income tax. But meanwhile, until the state's unbalanced revenue structure is fixed, Oregon needs to make the necessary preparations for the next national downturn.

Despite a favorable outlook over the next two years for continued, though slower, economic growth, both nationally and in Oregon, the likelihood of a recession increases with each passing month. As the December 2006 State economic forecast makes clear, "Oregon is already feeling the impacts from a slowing national economy" and a number of important risk factors have emerged: the weakness in the U.S. housing market, the decline of the dollar, instability in energy markets, and conflicts abroad. Oregon cannot leave itself open to the kind of fiscal dislocation it experienced in the 2001 downturn. Consequently, expanding and fully funding the state's rainy day fund must be a high fiscal priority for the coming Legislature.

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Dr. Porter's Rx

Here are Professor Porter's recommendations to improve the work of the Oregon Business Plan, along with our thoughts on each recommendation. The first recommendation here is especially intriguing.

1. Shift the emphasis from mitigating weaknesses to defining a unique position for the Oregon economy. The basic strategy of the Oregon Business Plan is to enhance the competitive strength and success of our traded sector clusters by giving them the optimum business conditions embodied in the Four Ps: a culture of cutting-edge innovation, a deep pool of well-educated people, the lure of a great place, and policies and infrastructure that enhance business productivity. To that end, the initiatives of the Business Plan have been aimed primarily at capitalizing on opportunities and mitigating weaknesses in the Four Ps framework.

Porter agrees with this strategy, but suggests we add to it and go beyond it by identifying and building on our unique competitive advantage as an economy. He suggests, and we agree, that Oregon's uniqueness is defined by its longstanding commitment to sustainability. A mutually interdependent and sustaining economy, community, and environment spring from the goals of *Oregon Shines*. This constitutes Oregon's triple bottom line: practices that are good for the economy, the community, and the environment. As a part of this ethic, many Oregon businesses and industries have green products and services that have both local and global markets. Some are actually part of the Environmental Technology and Sustainable Industries cluster. Others, which belong to different clusters, have adopted sustainable practices that enhance business reputation, branding and marketing, operational efficiency, and cost control and profitability. Along with our location on the Pacific Rim, such businesses and practices position Oregon well to attract green-conscious talent and markets, and to lead in a world searching for sustainability in the face of finite resources, particularly developing economies in Asia.

We explore the potential of this recommendation in the section that follows, entitled "Competitive Advantage: Sustainability."

2. Maintain the momentum of the competitiveness effort. While we explore sustainability as a distinct competitive advantage, Oregon should press ahead with initiatives that support the broader Four Ps strategy for a healthy and competitive economy. These initiatives intend, through policy changes, to remove or mitigate problems that impede economic growth and success. Identified by focus groups and surveys of business owners and managers, they range from shortages in skilled workers to neglected transportation infrastructure to runaway costs and limited access in health care.

Some people have wondered how the Business Plan can manage so many initiatives and action recommendations in what is largely a volunteer process. The answer lies in division of labor and phasing. Different initiatives, or pieces of initiatives, are "owned" by different advocacy groups. Each group is headed by a business leader. The groups themselves may consist of partners from business associations, public agencies, nonprofits, or elective offices. These groups develop and submit their findings and recommendations to the Oregon Business Plan Steering Committee for approval.

> ***Some initiatives are relatively manageable in a short time frame. Others address problems so large and deeply engrained that they require concerted, long-term institutional changes.***

The Steering Committee keeps the initiatives manageable by the way it stages their development year to year. Some initiatives are relatively manageable in a short time frame. For example, when the first Leadership Summit was held, Oregon's lack of air service to Asia and Europe was constraining opportunities in trade and commerce. Within a short time, the Port of Portland rolled up its sleeves and, working with its business partners, secured Lufthansa service to Germany and Northwest Airlines service to Japan.

Other initiatives address problems so large and deeply engrained that they require concerted, long-term institutional changes – that is, fundamental changes in policies, and in institutional structures, systems, and procedures. Two such initiatives are now at the top of the Oregon Business Plan agenda. One calls for educating greater numbers of Oregonians than ever before at higher levels than ever before. Because our present education systems do not have the capacity to achieve such results, the education and workforce initiative recommends redesigning the way that Oregon budgets for and invests in PreK-20 education; improving the content, sequence, and delivery of curriculum and instruction; and improving student progress and institutional accountability through comprehensive, integrated data systems. Another initiative calls for universal health care access, reduction in costs and improved quality through adoption of a shared responsibility model that asks individuals, employers, and providers to assume new responsibilities for health.

The Business Plan is continuing to support updated initiatives from past Leadership Summits, including a more robust approach to innovation through Oregon InC, and new recommendations in transportation, land use, permit streamlining, and Brand Oregon. It has recently received proposals for new initiatives in the arts, telecommunications, and Chinese language.

3. Clarify and simplify the organizational structure. There has been some confusion about who is behind the Business Plan and how it is organized. The principal governing group for the effort is the Oregon Business Plan Steering Committee composed of close to 20 business leaders from a range of business associations and public boards and commissions. The Business Plan's public sector partners are represented by the Oregon Business Plan Leadership Committee, composed of Oregon's U.S. senators, the governor, the Oregon speaker of the house, and the Oregon state senate president. As noted above, different interest or advocacy groups take responsibility for shaping Business Plan initiatives, which are vetted and approved by the Steering Committee. The Business Plan and Leadership Summit are staffed by the Oregon Business Council staff with support from a core group of consultants. Expenses are financed by sponsor donations. Sponsors for this year's process are listed on the back cover of this publication.

Leading-edge, traded sector clusters are central to the Business Plan's vision of how we understand and improve the Oregon economy.

4. Create the framework for cluster-based organizations. Leading-edge, traded sector clusters are central to the Business Plan's vision of how we understand and improve the Oregon economy. Our vision is that Oregon's economy will be propelled by industry clusters that compete at the leading edge of the global economy through innovative products and processes.

Industry cluster development is flourishing around the state. Economic development and workforce advocates throughout Oregon have been applying the cluster approach in practical efforts to address the real world competitive problems of Oregon businesses. Oregon, InC. has applied the cluster framework to its recommendations for improving innovation statewide. Groups have formed and launched new cluster efforts in industries as wide ranging as display technologies, metals, recreational vehicles, food processing, and wood products.

The Oregon Business Plan has worked to connect and improve cluster development efforts statewide. The Oregon Economic and Community Development Department and the Oregon Business Council have helped organize and support the Oregon Cluster Network, a quarterly collaborative meeting of cluster practitioners, and it has hosted OregonClusters.Org, a web-based collection of information and resource materials on industry clusters.

The state Workforce Investment Board has sponsored in-depth training led by nationally recognized cluster-experts Regional Technology Strategies, for more than 50 professionals statewide.

These cluster development efforts are bearing fruit, not only in communities around the state, but also in the form of international recognition. In October 2007, The Competitiveness Institute, a global organization of cluster experts and practitioners, will convene in Portland for its annual meeting, the first on U.S. soil in more than five years. The theme of the five-day event will be "Collaboration, Innovation, and Sustainability."

Now is the time to consolidate what we have learned from this experience, and to make clusters a permanent, ongoing feature of economic development in Oregon. Our efforts to date have encouraged considerable experimentation and innovation. Business and community leaders, economic development and workforce professionals, and others now have a good understanding of the cluster concept and its potential. Over the next two years the Business Plan would like to see the cluster approach further integrated into state economic development. To that end, the Governor's budget proposes a Cluster Development Fund, which will provide a financial tool to aid cluster development activities.

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5. Better mobilize universities. Since it began, the Oregon Business Plan has been an advocate for enhancing the role of postsecondary education in economic development, primarily through expanded instructional programs and basic and applied research. The Business Plan has been a strong supporter of doubling the Oregon university output of engineers and computer scientists, as recommended by the Engineering and Technology Industry Council. Through the original Oregon Council for Knowledge and Economic Development, and now through the Oregon Innovation Council, universities have a major role as partners in innovation through teaching, research, and technology transfer. Our universities house signature research centers, like ONAMI, the Oregon Nanoscience and Microtechnologies Institute, and top-ranked centers of excellence where academic research scientists collaborate with industry cluster counterparts. The Oregon Innovation Council, buoyed by funding of its recommendations in the Governor's budget, is building stronger innovation capacity through new partnerships between university researchers and business. We must continue to expand our innovation capacity by connecting our universities to the education and research needs of Oregon business.

6. Create measures to track the impact of competitiveness programs and the progress of clusters. Oregon now has two principal measures of competitiveness. One of the key indicators in *Oregon Benchmarks* is Oregon's national rank in traded sector strength. The *Competitive Index*, a project jointly sponsored by the state and the Oregon Business Plan, contains a series of measures of cluster health and output: jobs, net job growth, annual pay, and cluster concentration relative to the nation as a whole. Through its Initiative Tracker, the Oregon Business Plan continues to track progress on particular initiatives, including those that have an impact on cluster development. The Business Plan is receptive to other potential measures of Oregon's cluster health and competitive performance.

7. Coordinate efforts with neighboring states. A number of Oregon's clusters and many of its businesses overlap boundaries that Oregon shares with neighboring states. Oregon and Washington, in particular, face common infrastructure issues related to air service, the I-5 corridor, and the Columbia River ship channel. Vancouver and Clark County are also a significant part of the Portland-area economy. The Oregon Business Plan needs to explore additional ways that it can build a common agenda with its neighboring states and their industry clusters. This should probably begin with Washington because of our common links through the I-5 corridor, the Columbia River, Pacific Rim trade, and overlapping businesses and industry clusters. Recently, a group of Oregon and Washington legislators met to identify opportunities for collaboration on innovation. The International Competitiveness Institute conference, mentioned above, is being jointly hosted by Oregon, Washington, and the City of Portland.

2. Competitive Advantage: Sustainability

When Dr. Michael Porter assessed the competitive strategy of the Oregon Business Plan last year, perhaps his most salient recommendation was to "shift the emphasis from mitigating weaknesses to defining a unique value proposition." He suggested, as an overlay to the Four Ps strategy, that Oregon find ways to translate its reputation for sustainability into a key competitive advantage. Developing policies and a regulatory framework that are both pro-business and pro-sustainability, he said, would be "epic."

> ***Oregon should find ways to translate its reputation for sustainability into a key competitive advantage. A policy and regulatory framework that is both pro-business and pro-sustainability would be "epic."***
>
> ***— Dr. Michael Porter***

We agree that Oregon is unique in its longstanding commitment to sustainability. Sustainability here has roots as deep as our Native American and pioneer heritage. It is nurtured by the values of Oregonians and defined by public policies as diverse as forest practice requirements, land use planning, solid waste recycling, wetlands protection, green space investment, and support for light rail and bicycle transportation. In recent decades sustainability has blossomed in the business community through production of environment-friendly products and through business practices that reduce costs and enhance profitability. Both residential and commercial real estate developers are increasingly incorporating sustainability principles in site planning, building design and landscaping. Oregon architects and engineers are exporting their expertise in sustainable project design to clients in other states and countries around the world. Oregon's largest government agencies are incorporating sustainability into both their operations and their policies. A substantial number of nonprofit organizations focused on sustainability have sprung up in Oregon or have gravitated here, assisting businesses and government agencies in adopting sustainability practices, and adding to the state's culture of sustainability.

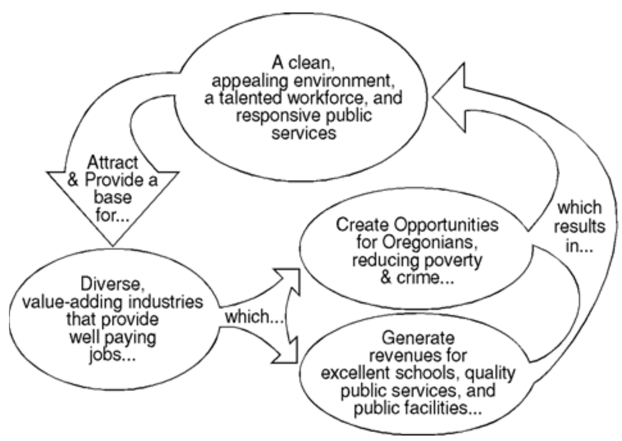
This section of the *Policy Playbook* is a proposal, not an initiative. Its principal purpose is to start the conversation about Oregon's potential for capitalizing on its lead in sustainability and converting that leadership into a long-term competitive advantage. In particular, it examines how that agenda can be advanced as part of the Oregon Business Plan. This discourse anticipates more extensive work in organizing a broader effort, in cataloging Oregon's lead in sustainability, and in laying the groundwork for building on that lead. In connection with this paper, the reader should note that in the innovation section, which follows, a substantial number of new industry clusters are centered on sustainability, and the Oregon Innovation Plan itself recommends that Oregon's third signature research center be focused on new technologies supporting renewable energy, bio-based products, and green building materials. Sustainability and innovation go hand in hand.

What is Sustainable Economic Development?

The broadest, most widely quoted definition of sustainable economic development comes from the United Nations' 1987 Bruntland Commission report: "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." More recent definitions speak of investments that produce an economic return, protect the environment, and look out for the interests of people (expressed in some circles as community well being, and in others as social equity). This three-part benefit is often cited as the *triple bottom line*. It has gained currency as an accountability term for measuring the performance of a business by its profitability, its impact on the environment, and its concern for people. Diversity in the workplace and broad sharing of economic benefits across urban and rural communities are often associated with community well being.

The Oregon Business Plan is well positioned to embrace sustainable economic development. That's because the Business Plan is based on the goals of *Oregon Shines*, the state's strategic plan, and because the goals and concerns of *Oregon Shines* correspond with current definitions of sustainability. As illustrated above, the goals of *Oregon Shines* are represented in three concentric spheres of Oregon life: economy, environment, and community. In acknowledging these goals, the first document of the Oregon Business Plan, *Stepping Up*, noted "Community health and environmental health are both key ingredients for a healthy economy, just as a healthy economy is critical for strong communities and healthy environments. This is illustrated at right as a virtuous circle, where economy, environment, and community reinforce and enrich one another.

Circle of Prosperity



Why Sustainability as an Oregon Strategy?

Oregon has the same good reasons to embrace sustainability as economies in other states and nations, perhaps even more, given our rich and diverse natural endowments. The timing is opportune, the benefits are clear, markets are developing rapidly, and Oregon has a strong and growing culture of sustainability, reinforced by a critical mass of expertise and activity.

Opportune Timing. The world is caught in a spiraling tension between population growth, increased industrialization, rising consumption, and finite resources, especially hydrocarbon-based energy. Dependence on oil is fraught with both economic and political dangers, and global consumption of fossil fuels is clearly implicated in global warming, which poses a threat to the economies and well being of countries worldwide. Nations – both developed and developing – are searching for more sustainable ways to grow their economies. Places like China, India, and Brazil are open to new models of sustainability, such as distributed infrastructure, which replaces large centralized facilities (for such functions as collection or distribution of water, sewerage, energy, or telecommunications services) with more self-sufficient local systems. There is a strong interest in replacing products made from toxic chemicals or petroleum with those made through more benign, innovative biological ingredients. Opportunities abound for leadership in developing renewable energy technology, green building and infrastructure, and better, more sustainable ways for businesses to operate. This is a good time to take the lead in products, services, and business practices that are friendly to business profitability, the environment, and the community. It is a good time for public investments that encourage such development and make efficient use of our resources.

Opportunities abound for leadership in developing renewable energy technology, green building and infrastructure, and better, more sustainable ways for businesses to operate.

Obvious Benefits. It makes sense for Oregon to conserve, wisely use, and renew resources as much as possible. The economic and related benefits of sustainable development and business practice include the following:

- Reduced environmental footprint and impact
- A more environmentally conscious workplace
- Healthier, more productive workplace environments
- A lead mission for Oregon innovation, in the form of new products and services that directly benefit Oregon, that are exportable, and that create Oregon jobs
- Stronger, more differentiated brand image for sustainable companies, products, and services, and for Oregon as a whole
- Increased regard among customers and stakeholders for companies that employ sustainable practices
- Cost savings, efficiency, and productivity for businesses and industry clusters that incorporate sustainability in their operations
- Increased economic enterprise and jobs for rural Oregon, especially in production of clean, renewable energy.

Emerging Markets. Research shows that one in four adult Americans – nearly 50 million people – are now part of a rapidly growing consumer base interested in sustainable products and services. (http://www.lohas.com/journal/changing.html). Nowhere is this clearer than in the markets for clean energy products and services and for green buildings.

The clean-energy market is already at $40 billion worldwide and is expected to top $150 billion in 10 years. Broader job markets stand to benefit: If just one-fifth of America's energy comes from clean sources by 2020, manufacturing and construction jobs nationwide could increase by 100,000, according to a 2004 report from University of California-Berkeley's Renewable and Appropriate Energy Lab.

Conservative estimates suggest that the clean energy industry in Oregon, Washington, and British Columbia will grow to a total of $2.5 billion over the next 20 years (Climate Solutions, 2001). For every $100 million in investments in renewable energy, about 1,250 full-time equivalent jobs are created. The net increase in economic output, wages, business and other income totals almost $200 million.

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The significant projected growth in market demand for products and services in green building and green development represents a wealth of opportunity to obtain research funds and develop commercial products and services. According to Green Building SmartMarket Report in 2005, green building constituted a $3 billion industry in the U.S. in 2004; by 2010, investments in new non-residential construction using green building principles is estimated to range from $10.2 to $20.5 billion. The export potential for green products and for expertise in planning, design, and engineering of green building and development is also significant – particularly in Asia where Oregon has close ties and is already providing expertise in green building projects.

Investment. The rising tide of financial investments in "clean technologies" illustrates the opportunities at hand. In North America alone, venture capital investing in clean technology realized its eighth consecutive quarter of growth with a record $843 million invested in the second quarter of 2006. GE's "Ecomagination" initiative – an annual $1.5 billion R&D investment – is expected to increase its investment in green technology to at least $20 billion by 2010. Goldman Sachs has invested over $1 billion in clean technology since 1999 and Wells Fargo recently pledged $1 billion in lending, investments and other financial commitments by 2010 to environmentally beneficial business opportunities, including renewable energy. Venture capital for energy companies accounted for nearly 5 percent of total venture capital. Leading venture capitalist Nancy Floyd, who resides in Oregon but runs San Francisco-based Nth Power, wrote recently that Oregon could capture some of this investment by increasing its commitment to clean energy development.

Oregon's Edge in Sustainability

A lot of places around the globe are vying to be leaders in sustainable development. What makes us think Oregon can lead the race? We have a significant head start in ways that count. In particular, we have critical mass among practitioners of sustainability in business and government, expertise among nonprofits and government agencies, emerging clusters of businesses based on sustainability innovations, centers of excellence at our research universities, and public policies that encourage sustainable practices.

Industry Leadership and Business Practices. Oregon has a significant concentration of firms with deep expertise in and a commitment to sustainable business practices. Three of its largest employers, for example – Hewlett-Packard, Intel, and Nike – have been ranked by the World Economic Forum at Davos, Switzerland, among the "Global 100 Most Sustainable Corporations in the World." All three have well developed sustainability programs that apply to product design and content, supply chain choices, energy consumption, environmental emissions, waste reduction, packaging and distribution, consumer use, and product disposal, as well as work environment and community impacts. Similar stories run through other Oregon businesses and industry clusters. Some examples:

This Nike diagram illustrates the company's approach to sustainability in its product cycle.

- *Norpac Foods.* Norpac is a cooperative that produces frozen and canned vegetable products under a range of familiar brands. Spurred by the governing board of its membership, Norpac has been developing a standards-based, externally audited stewardship program from farm to processing focused on soil and water conservation, plant and disease management, fish and wildlife habitat, and safe, fair working conditions.

- *Schnitzer Steel Industries.* Sustainability is at the core of the Schnitzer Steel Industries business, where every ton of recycled steel saves 2,500 pounds of iron ore, 1,400 pounds of coal, and 120 pounds of limestone. But the company also leads its industry in managing waste and hazardous materials. Several SSI sites have received state and national environmental awards.

- *Sokol Blosser Winery*. This winemaker's commitment to sustainability starts with its mission statement and includes organic cultivation, use of biodiesel in farm equipment, purchase of electricity from wind power, green wine cellar construction, and a host of other practices.

- *The Collins Companies.* Collins, headquartered in Oregon, was the first privately owned forest products concern in the United States to be comprehensively evaluated and independently certified under the principles and criteria of the Forest Stewardship Council (FSC). In a process the company calls its Journey to Sustainability, Collins grows and markets certified lumber and wood products, manufactures certified particleboard and exterior siding, and uses sustainable practices in all three of its manufacturing plants.

Oregon businesses that practice sustainability are finding it as beneficial to their financial performance as it is to the environment and the community. In a 1999 study based at Portland State University, Bob Doppelt and Lisa Watson found among 160 businesses that 108 of them reporting financial outcomes realized a total savings of $55.6 million from sustainability investments, with an average payback period of 1.9 years.

Nonprofit Expertise and Leadership. Oregon enjoys a rich array of nonprofit organizations that lend the state focus, expertise, and leadership in sustainability. These include, among many, Ecotrust, the Climate Trust, the Energy Trust of Oregon, Sustainable Oregon, the Oregon Environmental Council, and Oregon Natural Step Network. Creating networks of people committed to new approaches to business is a proven way to promote economic development, as exemplified by the Silicon Valley. In this regard, nonprofit organizations play a key role in creating such networks, developing new methods and piloting new ideas. Many of the top national organizations leading the way to sustainable development, such as Ecotrust, have chosen to locate in Oregon because their leaders want to live and work here. Others, like Sustainable Northwest, invest in pilot projects throughout the region demonstrating and celebrating what works. The Natural Step Network brings committed practitioners together monthly to share ideas and expertise.

University Expertise and Leadership. Oregon's biomaterials, bio-processing, and engineering research facilities and faculty are involved in developing new technologies that increase the number and quantity of crop feedstocks for biofuels and other industrial products. Oregon's engineering research facilities and faculty are seeking innovative processes to efficiently convert biomass to chemicals and fuels. Oregon higher education is also a leader in sustainability education, with well defined programs at Oregon State, Portland State, and the University of Oregon. Oregon Solutions, a collaborative program based at Portland State, works with community groups across Oregon on sustainability projects ranging from habitat restoration to woody biomass to development of the Oregon Sustainable Agriculture Resources Center. The Association for the Advancement of Sustainability in Higher Education, based in Portland, is working with colleges and universities around the nation to develop their capacity in sustainability practices and curriculum offerings.

Expertise in Sustainable Products and Services. Oregon has substantial expertise and capacity in the sustainable fields of renewable energy, bio-based products, green building, and green development.

- **Renewable energy**. An estimated 13,000 energy industry professionals work in public, private, and nonprofit organizations in the Pacific Northwest, a large share of them in Oregon. Oregon's utilities, startups, and research labs are working on a variety of opportunities to expand our renewable energy portfolio, including wind, solar, fuel cells, microhydro, ocean wave, and geothermal technologies. Approximately 200 clean energy firms already operate in Oregon with 94 in the Central Oregon Corridor.
- **Bio-based products**. Oregon has a substantial corps of industry and academic specialists in bio-based products, a $400 billion U.S. enterprise in industrial goods ranging from corn starch to wood fiber. Kaichang Li, an OSU wood products scientist, illustrates how the envelope is expanding in this field through innovation. He figured out how to greatly improve soy adhesives for composite wood products by manipulating their proteins in a way that mimics the protein-based adhesion of

mussels to ocean rocks and boat hulls. In durability and application, this technology makes soy adhesives an attractive alternative to formaldehyde-based adhesives, which can have toxic effects, especially in building products. Columbia Forest Products, which has manufacturing operations in Klamath Falls, among other locations, is using this technology to convert from formaldehyde to soy adhesive in its production of hardwood plywood.

- **Green building**. Findings from an EPA-funded survey indicate that green building represents approximately 15 percent of the overall building market in Oregon in 2004, compared to the national average of about 4 percent. The Portland metropolitan area has the second highest number of LEED[1] certified buildings in the U.S. Oregon enterprises in the fields of engineering, architecture, planning, wood products manufacturing, remodeling, and energy conservation are engaged both in developing LEED certified buildings and in pushing the design and performance envelope beyond certification requirements. The Northwest Energy Efficiency Alliance and the Energy Trust of Oregon are both investing millions of dollars as incentives to build and operate efficient buildings and alternative energy facilities. These public programs have helped Oregon become a national and international leader in the development of energy efficient buildings and renewable energy businesses.

Natural Resource Supply. Oregon enjoys a competitive advantage over other states in the region because of the diversity of our agriculture industry, the capacity and productivity of our forest products industry, and our strong emphasis on value-added bio-based products over commodity production. We produce diverse specialty crops highly adaptable to the production of industrial feedstocks, biopharmaceuticals, nutriceuticals, and other high-value chemicals. High volumes of biomass, especially in the form of dense, fire-prone undergrowth, can be sustainably harvested from our forests. Wood feedstocks and the residues from primary product manufacturing are a significant competitive advantage. Few other states appear to be looking at the potential of forest biomass, and almost none are considering both forest- and agriculture-based raw materials for high value products.

Oregon's diverse natural resources also provide a competitive advantage for renewable energy since Oregon researchers and businesses span all aspects of clean energy development (biomass, biofuels, energy efficiency, fuel cells, geothermal, micro-hydro, ocean wave, solar and wind). As distributed energy systems develop, this diversity of resources makes Oregon a unique test bed, where the feasibility of a range of technologies can be evaluated in a systems context. Clean energy requires a mix of sources; no single renewable energy resource can meet growing demand.

International Reputation. Reputation is no small matter in building competitive advantage, and Oregon has it in sustainability. This past year, Portland was again ranked first in urban sustainability in SustainLane's annual rankings of the 50 largest cities in the nation. Oregon is internationally recognized for its accomplishments and ongoing work in land use planning, urban growth management, recycling, transit development,

[1] LEED, Leadership in Energy and Environmental Design, is a rating and certification system which promotes a sustainability ethic in project siting, water efficiency, energy use, impact on the atmosphere, materials and resources, and indoor environmental quality. The system offers four levels of accomplishment: LEED Certified, Silver, Gold, or Platinum, according to how well the building meets criteria in the rating system.

Willamette River cleanup, green space and wetlands protection, forest practices legislation, and a host of other initiatives. Oregon developed the first sophisticated model used internationally to integrate transportation facilities and land use. International leaders come to Portland regularly to study how we have connected land use, bicycle, pedestrian, light rail and other mass transit facilities. This reputation is enhanced by the sustainability practices of governments and businesses, by state-grown innovations in sustainability technologies, and by evolving green building and development practices.

Reputation is no small matter in building competitive advantage, and Oregon has it in sustainability.

Talent. The ability to attract talent, especially well educated young adults, is an important competitive factor in cluster development. There is some evidence to suggest that Oregon's culture of sustainability appeals to the values of newcomers and potential newcomers to the Oregon economy. In informal conversation, a number of employers involved in sustainability say that sustainability is a draw for new employees attracted to work in Oregon. Joe Cortright, co-author of the Young and Restless Study, which chronicles the factors attracting talented 25- to 34-year-olds, reports that in focus groups young professionals and creatives say they want to live and work in communities that are committed to long-term livability, environmental quality, and economic opportunities. In this regard, sustainability not only attracts talent, but the kind of talent attracted builds Oregon's culture of sustainability.

Public Policy. Oregon has shown how public policy can drive change and create economic opportunities through incentives, new regulations and market demand. In the 1970s Oregon adopted business energy tax credits to provide incentives for renewable energy and energy efficiency. They have worked. A recent Northwest Power and Conservation Council report concludes that the region, since 1978, has saved more than 2,925 megawatts of electricity through conservation measures, enough for two cities the size of Seattle. Today, the Council reports, every dollar spent on energy conservation is buying more than twice as much energy-use efficiency as did investments in the early 1990s Regulatory changes, such as new building codes and carbon offset requirements for new power plants, complement the incentives. And state and local governments have adopted purchasing requirements creating markets for recycled products and LEED certified buildings. Oregon has already extended these public policy approaches to sustainability through the Sustainability Act of 2001, local government efforts like Portland's Office of Sustainable Development, and purchasing decisions, like Tri-Met's commitment to biofuel.

International Connections. Oregon's myriad connections to Asia developed through traded sector business and tourism have nurtured connections to the fastest growing economies in the world. These countries have highly stressed environments and they are seeking answers to pressing environmental problems, making green development expertise and technology exportable. Existing relationships between universities and the private sector with these Pacific Rim countries offer the state a strategic advantage in competing in these dynamic markets. Oregon's foothold in these markets is represented by the training programs for the Chinese Ministry of Land and Resources and Ministry of Construction that Portland State has provided in collaboration with the Portland-based

China-U.S. Center for Sustainable Development, and by the extensive network of Asian students who have sought training in Oregon in the fields of agriculture, architecture, engineering, forestry, land use planning, and energy.

Adopting Sustainability as Part of the Oregon Business Plan

As we take the Oregon Business Plan to the next level, we propose to raise the profile of Oregon as one of the key places in the world that embraces and leads in sustainable economic development. In effect, as shown in the graphic below, sustainability should be woven throughout the framework of the Business Plan.

WEAVING SUSTAINABILITY INTO THE OREGON BUSINESS PLAN

OREGON BUSINESS PLAN FRAMEWORK		BUSINESS PLAN FRAMEWORK WITH SUSTAINABILITY
<u>GOAL</u> Quality jobs for Oregonians	▶	<u>OREGON SHINES GOALS</u> • Jobs • Environment • Community
<u>VISION FOR THE ECONOMY</u> Develop leading-edge traded sector industry clusters	▶	<u>VISION FOR THE ECONOMY</u> • Forestry, agriculture and other resource clusters globally recognized for sustainable practices • New clusters in renewable energy, conservation services and green design flourish here • All clusters known for sustainable products, practices, or both to improve bottom line while enhancing environment and community
<u>STRATEGY – FOUR Ps FOR PROSPERITY</u> • Pioneering Innovation • People • Place • Productivity	▶	<u>STRATEGY – FOUR Ps FOR SUSTAINABLE PROSPERITY</u> • Innovation agenda focuses on sustainable industry clusters and process improvements • People agenda educates and trains people with special knowledge of sustainable practices • Place agenda strengthens quality of life through smart design, solid waste management, business practices that aid air and water quality • Productivity agenda adds green permitting; transportation infrastructure to reduce fuel waste and time lost from congestion
<u>BUSINESS PLAN INITIATIVES</u> • Economic Innovation • Public Finance • Education/Workforce • Health Care • Transportation	▶	<u>SUSTAINABILITY APPLIED TO INDIVIDUAL INITIATIVES, AS APPROPRIATE</u> • Sustainability signature research • Land use system review • Green permitting and regulation • Renewable energy, e.g., woody biomass, wave • Brand Oregon, enhanced brand value

Goal. The central focus of the Business Plan has been to create good jobs for Oregonians. However, the Business Plan has always recognized the importance of the other two goals articulated by the Progress Board. Under this revised framework, we propose that all the work on economic policy also aim to improve conditions in environment and community, just as we propose that environmental policy and community development strategies be designed to support all three goals.

Vision for the Economy. The heart of the Oregon Business Plan is to support vibrant clusters of traded sector firms. In fields ranging from forestry and agriculture to sports apparel and high technology, Oregon companies are providing global leadership in product development and process design. Sustainability ties into the vision of leading-edge traded sector clusters in three ways: This strategy has three parts.

- It will showcase sustainability in Oregon's traditional industry clusters of agriculture and forestry, where a shift toward value-added products and changing consumer demands are driving new markets and new opportunities for Oregon companies to differentiate their products based on their sustainable characteristics.
- It will galvanize emerging clusters in renewable energy, green buildings, and environmental technology where regional, national, and international demand is expected to grow astronomically over the next several decades, and where Oregon has reached a critical mass of talent and expertise
- It will highlight and promote among all Oregon companies the successful sustainability practices now prevalent among many of our leading businesses and clusters.

The Strategy and Initiatives. We also see the opportunity to weave sustainability into our competitiveness framework – the Four Ps for prosperity, and the initiatives that support them.

- **Place.** Oregon's passion for sustainable development is directly tied to this place we live in. Oregon is special – and Oregonians want to keep it that way. Because we care so much for the quality of our communities and the special place we live in, we seek business practices that support rather than detract from environmental quality. It turns out that those practices can also give Oregon companies a boost in the market place by enhancing the perceived quality of products and by attracting talented people to our communities and enterprises.
- **People**. Businesses and business practices rooted in sustainability require highly skilled, technologically competent, and innovation-minded people. Oregon's education systems can make an important contribution to this strategy through general curriculum that integrates the sustainability ethic, and through more advanced technical education, whether in industries that provide green products and services, or in the application of sustainable technologies and practices in all business fields. For example, the Columbia Gorge Community College has just launched a program to provide technicians to support Oregon's burgeoning wind energy business.
- **Productivity.** Infrastructure, whether it be transportation, telecommunications or water and waste treatment systems are critical for the productivity of the traded sector firms. All of our infrastructure is aging and needs to be upgraded or replaced

providing the opportunity to adopt sustainable solutions and markets for new technologies. Beyond improving productivity through new public investment in sustainable infrastructure, business productivity can be improved by streamlining permitting. There are promising examples of fresh thinking about regulation and permitting that demonstrate how to achieve cost savings and better environmental results. A few years ago, Intel and the Department of Environmental Quality pioneered Project Excel, a streamlined regulatory process that committed Intel to reduce its environmental impact while simplifying and accelerating the permit process. Oregon's $1.3 billion bridge repair and replacement program under the Oregon Transportation Investment Act has saved millions of dollars, shortened delivery times and achieved new levels of recycling and environmental performance through a new integrated approach to interagency collaboration, permitting, and construction.

- **Pioneering Innovation.** The Business Plan recognizes that much of Oregon's recent economic growth has been propelled by knowledge-based industries such as electronics, software, and electronic commerce – and through innovation and new products from all industries. The Oregon Innovation Council, in assessing Oregon's innovation assets recognizes that a wave of products and services relating to sustainability create huge opportunities for Oregon. The demand for renewable energy, green building, and other sustainable development is creating new markets and new opportunities for innovation. Fortunately for us, Oregon is positioned to be a global leader in these markets. The Innovation Council's recommendations, as described below, point the way.

Initiatives

If sustainability is to become a prominent theme of the Business Plan vision and strategy, it must be executed through the Business Plan initiatives. A common theme in all this work is to examine a particular policy area with a deliberate aim to improve the economy *and* the environment *and* the community. In the year ahead, we propose that all initiative teams re-examine their policy and action recommendations with sustainability in mind. For example, advocates of regulatory streamlining should review regulatory practices with the aim of improving environmental and community health while reducing business cost and regulatory cycle-time. We also propose that the Business Plan consider new initiatives to support the sustainability agenda. For example, the Plan might include:

- A fresh look at energy policy with an eye to stable, cost-competitive sources of renewable energy supply and increased commitment to energy-efficiency.
- A careful look at water and wastewater policy with the aim of using the resource more effectively for the economy, community, and the environment

The Oregon Business Plan's priority initiatives – innovation, public finance, education, health care, and transportation – are presented in the following sections of this document. In some cases, the initiatives already incorporate attention to sustainable development. In other cases, we will need to explore how sustainability can be integrated.

In the near term, there are clear initiatives that the Business Plan recommends to support a sustainable economic strategy:

- The Oregon Innovation Council agenda, presented next in this document, is a good place to begin. Oregon has major opportunities to innovate on the cutting edge of sustainable technologies.
- The Business Plan strongly supports the work of the “Big Look” task force. A sustainable land-use policy that adequately protects farm and forestland – Oregon's unique physical assets – and provides a steady supply of land for industrial development is a key component of an economic strategy built around sustainability.
- Oregon must incorporate this focus on sustainability into its branding and marketing. The Brand Oregon program has been an initiative of the Oregon Business Plan since 2002. This year, the Governor has proposed $1.6 million in his budget to fund the program. We encourage the Legislature to invest in this highly effective marketing tool. We encourage Brand Oregon to highlight sustainability as a key theme for attracting businesses and talent, and for marketing goods and services.

Next Steps

Over the next few months, we will explore further how to weave sustainability throughout the Oregon Business Plan. The potential of sustainability summarized here merely highlights the depth of interest and accomplishment among companies, organizations, and individuals throughout Oregon. We are certain that much has been left out. This is just a start.

The effort will begin in earnest at the January 4 Leadership Summit, where we will hear from business leaders and others about their experiences with sustainable development. Following the Summit, we will ask for reflections on this strategy and specific suggestions on how Oregon can advance the strategy on sustainability. Those finding will be posted at the Oregon Business Plan website.

Early in 2007, the Oregon Business Plan will name a team to help develop this work further. The team will be charged with surveying sustainability and reviewing how concepts of sustainability can be woven throughout the Oregon Business Plan. We understand that successful execution of this strategy will take years, not months. We also realize that there is no better time to begin than now.

3. Economic Innovation

RECOMMENDATIONS

In order to facilitate the commercialization of great discoveries, launch new business, hone new talent, and cultivate next generation firms, industries, and jobs for Oregonians, Oregon should:

- Invest in established and emerging industries
  - $5.2 million investment in ocean wave energy
  - $4.6 million investment in food processing/seafood
  - $3.4 million for manufacturing competitiveness
- Invest in signature research centers
  - $10 million in continued funding for ONAMI
  - $3 million to launch bio-economy signature research center
  - $7 million to launch infectious disease drug development signature research center
- Enhance innovation capacity
  - $5 million for "Innovation Accelerator Fund"
  - Statewide angel/entrepreneur network endorsement
  - Tech transfer improvement
  - Expansion of Oregon Growth Account scope
  - University Venture Development Fund modifications

Vision and What Is at Stake for Oregon

The 2002 Oregon Business Plan white paper "Expanding Our Capacity for Innovation" led with the following quote from *The State of the New Economy Report*. "Today, a new economy is clearly emerging: it is a knowledge and idea-based economy where the keys to wealth and job creation are the extent to which ideas, innovation and technology are embedded in all sectors"

Today, many recommendations included in that original initiative white paper have been accomplished. A number are highlighted in the box at right and more are listed on the Oregon Business Plan website.

ACCOMPLISHMENTS TO DATE

√ ONAMI is established as Oregon's first signature research center.

√ Economic Development in Oregon is refocused to strengthen business retention, expansion, and recruitment.

√ Oregon Cluster Network is launched.

√ The Oregon Innovation Council (Oregon InC) is established and funded.

√ University research and commercialization is advanced through SB 853 and AEED.

√ The Oregon Investment Fund is created.

The innovation imperative described in the *State of the New Economy Report* rings as loudly today as it did in 2002. Here are some factors driving this imperative:

- Global communications technologies developed in recent decades – along with travel advances – have connected people from one corner of the globe to the other. Once distant communities have become neighbors and trading partners.
- Firms are now competing internationally for greater shares of larger markets, giving consumers all over the globe more choices in products and services. People have

become more discerning consumers, increasing the pressure on competing firms to offer greater value for less money.

- Increased competition has prompted many firms to focus on quality and process improvements, including quality certification programs and new supply chain and distribution approaches, including offshore manufacturing. This kind of innovation – process innovation – helped firms trading on price and quality thrive, for a time.
- Our increased global connectedness has changed people's interests, tastes and demands, creating opportunities to meet new market needs and satisfy existing ones in completely different ways. Mobile telephony, for example, has enabled many countries to skip an entire generation of communications technology (hard telephone wires), and create opportunities for enterprising firms to reinvent whole industries (e.g., banking, retail, logistics, etc.) using mobile phones as the primary access point for services.
- The recognition that process innovation alone is not enough has intensified interest in "disruptive innovation" – the creation of new products, services and technologies that make new markets and generate new wealth – and sparked widespread interest in the process of innovation itself – how, why and under what circumstances it happens.

The new wave of interest in innovation is not process-based, firm-based, or even industry-based, but place-based.

Challenges and Opportunities

Scholars, analysts, economists and innovators have identified four factors essential to successful innovation: entrepreneurial talent, research and development (R&D) capacity, connectedness among people and firms, and money to help turn R&D into products and services that people want to buy.

The new wave of interest in innovation is not process-based, firm-based, or even industry-based, but *place-based*. As *Business Week's* recent Competition Issue makes clear, in a mobile world, geographic assets matter. Places – communities, not nations – with unique strengths that can attract talent will win in the new economy. The new wave of innovation is about place-based *innovation capacity* – the ability to innovate not once, but over and over again, across industries and diverse communities all over the world. This is the new competitive frontier. And Oregon is well-poised to compete.

Traditional barriers to innovation have included difficulty identifying or agreeing upon key innovation opportunities, lack of investment capital, inadequate funding of university research, and an incomplete understanding among Oregonians about the role and importance of innovation to our economy and well-being.

In 2005, the Governor and the Oregon Legislature, with the help of innovation leaders from across the state, created the Oregon Innovation Council (Oregon InC), challenging this new partnership to articulate an innovation-based strategy to enhance Oregon's global competitiveness – and then make it happen.

During its inaugural year (2006), 42 top executives, university provosts, venture capitalists and legislators gave hundreds of hours of time and expertise to craft a strategy intended to help the state:

- Raise wages
- Create new high-paying jobs
- Strengthen research efforts
- Increase venture, seed and private capital available to entrepreneurs statewide
- Increase exports of goods and services to other states and nations
- Sustain jobs in key (established) industry sectors (agriculture, forestry, etc.) and increase the number of well-paying jobs in rural areas
- Make Oregon a recognized global leader in new (emerging) sectors including nanotechnology, alternative energy and advanced bio-based products
- Make innovation the job of every Oregonian

An innovation agenda is a potential bridge between Oregon's urban and rural economies.

The Council adopted a broad definition of innovation, not one specifically rooted in the application of technology. It also recognized that the innovation agenda is as much a small business imperative as a big business one. And, since innovation can enhance businesses across industries and throughout supply-chains, the Council understood an innovation agenda as a potential bridge between Oregon's urban and rural communities.

Recognizing that state government can invest in only a limited number of initiatives, the Council agreed to focus investment in areas that would leverage additional assets or address strategic gaps, rather than support a range of disparate activities. While the Council values experimentation – and understands its role in innovation – members felt that state investments should be chiefly aimed at the most promising projects and initiatives. As a result, proposed investments reflect strong partnerships characterized by multiple investors who have all committed to advancing a shared set of interests. In some cases, proposals focus on legal or regulatory changes that do not reflect any direct costs at all. This approach supports experimentation that is less about "what to do" and more about "how to do it."

The Council also recognizes that innovation can happen in any firm, in any industry, anywhere – indeed inspiring such innovation all over Oregon is the Council's central purpose. However, not all innovation is of the same value to the state. Because the Council is investing public resources, members felt strongly that high-return projects should command priority.

Balance was also a priority for Council members. Innovation carries risk. Therefore members felt that a portfolio approach to investing state resources – one that balances investments in emerging industries with those in existing industries, investments in process with those supporting disruptive innovation, and investments in short-term returns with those in long-term capacity-building – would be an effective way to mitigate risk while pushing the state's agenda forward.

Finally, a point of universal agreement among Council members was the need to capitalize on the state's unique assets. Because so many Council members are drivers of innovation within their own organizations and industries, they understand what it means to build on core strengths – hard-to-replicate competitive advantages – and insisted this be the state's approach. As a result, proposals rooted in natural resources like ocean currents and fertile lands, intellectual capital including the Oregon University System and the Pacific Northwest National Laboratory, and social capital such as the Oregon Entrepreneurs Forum and nanotechnology industry networks, feature prominently among Oregon InC's recommendations.

Agenda for 2007 and Beyond

The 2007 innovation agenda, developed by Oregon InC, is focused on three key objectives: enhancing industry competitiveness, commercializing research through signature research centers, and increasing Oregon's capacity for innovation.

Enhancing Industry Competitiveness. The Oregon Business Plan recommends that the State of Oregon:

- Invest $5.2 million in the first commercial-scale wave energy park in the U.S. This will establish a toehold for the emerging ocean wave energy industry in Oregon and will catapult Oregon to the forefront of this emerging alternative energy technology. This has great potential to create jobs, attract talent, and seed next generation technologies in communities all over the state.
- Invest $4.6 million to support the launch of the Northwest Visioning, Innovation and Productivity Center – in collaboration with Oregon State University's Food Innovation Center – and specific business support and technical assistance for Oregon's Seafood firms through the Community Seafood Initiative in Astoria.
- Invest nearly $3.4 to will support training, lab equipment and a matching grants program for firms in the manufacturing industry, in partnership with the Oregon University System.

Supporting new product and process innovations, business development, new market outreach and industry-wide collaboration, within these industries—where one in seven Oregonians work—will help them compete in the global economy.

Commercializing Research Through Signature Research Centers. The Oregon Business Plan recommends that the State of Oregon:

- Invest $10 million for continued growth and development of the Oregon Nanoscience and Microtechnologies Institute (ONAMI), Oregon's first signature research center, launched in 2003. Specific recommendations include the launch of a nanotechnology incubator and (privately-sourced) equity capital fund to support ONAMI start-up firms. .
- Invest $7 million to launch the Oregon Translational Research and Drug Discovery Institute (OTRADI), the state's second signature research center, a partnership between Oregon Health & Science University, Oregon State University, the University of Oregon, and Portland State University, to help firms commercialize new technologies that have the potential to fight infectious diseases, but carry large cost barriers to entry.
- Invest $3 million to launch a Bio-Economy and Sustainable Technologies Center (BEST), the state's third signature research center, focused on new technologies supporting renewable energies, bio-based products, and green building materials. The

Center represents a partnership between Oregon State University, the University of Oregon, Portland State University, the Oregon Institute of Technology, the Pacific Northwest National Laboratory (PNNL), and private industry.

Increasing Oregon's Capacity for Innovation. In addition to specific investments in programs and initiatives, Oregon must enact a series of regulatory and legislative changes designed to enhance the overall innovation climate in Oregon. Oregon should:

First, address resource gaps impeding inventors and entrepreneurs from commercializing new intellectual property. Specifically, pre-seed and early stage capital is in short supply statewide. Without this capital, promising enterprises can be derailed and aspiring entrepreneurs discouraged. Three proposals should help bridge the gap:

Pre-seed and early stage capital is in short supply statewide.

- *Expand the Oregon Growth Account Board's scope and authority* to include investing in funds that provide early stage financing for Oregon's newest growth businesses and seed financing for new innovations launched by existing Oregon firms.
- *Modify the statutory language governing the University Venture Development Fund* to clarify the law's intent and better support its implementation, and consider increasing the cap on funds universities can raise under the tax credit program.
- *Endorse the joint effort to develop a statewide angel and entrepreneurs' network* to better connect entrepreneurs with financing opportunities, investors to potential business opportunities and enhance the state's entrepreneurial networks. The project, currently supported by the U.S. Economic Development Administration, Oregon Entrepreneur's Forum and the Oregon Economic and Community Development Department, plans to launch a web-based portal for entrepreneurs and angels in 2007.

Second, the Innovation Council should assist the Oregon University System (OUS) and the Oregon Department of Justice (DOJ) to streamline statewide university-commercial technology transfer. Oregon InC will work with OUS and DOJ on three key initiatives:

- *"Bundling" intellectual property* (IP) among the universities in Oregon and other institutions.
- *Fair and expedient licensing* of new technologies.
- Creating *incentives for newly licensed technology* to be commercialized in Oregon.

Finally, the state should invest $ 5 million in a “Innovation Accelerator Fund” to ensure that Oregon can capitalize on next-generation innovations and improve the quality and quantity of proposals in the innovation pipeline in advance of the next biennium. During the past eight months, Oregon InC has identified a plethora of great innovative ideas – in academia, among firms in both established and emerging industries, and in partnership with entrepreneurship networks like the Oregon Entrepreneurs Forum. In total, the Council reviewed 25 innovation proposals. While the relevant Oregon InC committees selected, and recommended for support, those closest to implementation, many of the ideas not taken forward have significant merit and should be cultivated in advance of the next biennial competitive process. The Innovation Accelerator Fund would serve this purpose and, in partnership with the Oregon Economic and Community Development

Department, would help provide on-going support for the cultivation and nurturing of these and other promising ideas.

Economic Innovation Initiative Leaders

David Chen, OVP Venture Partners
Walter Van Valkenburg, Stoel Rives LLP
Kirby Dyess, Austin Capital Management

Background Resources

Oregon Innovation Plan. http://www.oregoninc.org/InnoPlan.pdf

Renewing Oregon's Economy: Growing Jobs and Industries Through Innovation – Oregon Council For Knowledge & Economic Development (December 2002) www.ous.edu/cpa/OCKED

Core Research Competencies in Oregon – OCKED (February 2004) www.econ.state.or.us/OCKED.pdf

"Expanding Our Capacity for Innovation" (PDF) -- Oregon Business Plan White Paper (January 2003)

"*Refocus Economic Development on Industry Clusters*" (PDF) -- Oregon Business Plan Summit 2003 Discussion Paper (Decrmber 2003)

www.oregonclusters.org. A new tool for learning and networking Oregon clusters.

4. PUBLIC FINANCE

RECOMMENDATIONS

In order to revamp our system of public finance and budgeting to provide stable funding for critical public services and to create strong incentives for economic growth, the Oregon Business Plan recommends that the Governor and Legislature should:

- Develop 10-year forecasts to support an expansive policy vision.
- Extend transparent, performance-based budgeting proposed for education to the rest of the budget.
- Review compensation and ensure that public-sector pay supports the state's strategic goals.
- Grow reserves and launch a new debate on tax reform.
- Work with the U.S. Congress to restore lost federal timber revenue in 18 counties

Vision for Public Finance And What's at Stake for Oregon

In January 2007, Oregon state government finds itself in an enviable position. After three consecutive biennia with tight budgets, the state's immediate fiscal position is strong. Managed well, the revenue growth should accommodate current services and, for the first time since the late 1990s, new investments. Rather than debating which program to cut and by how much, policymakers will consider extending pre-kindergarten programs to needy children, reducing elementary-school class sizes, expanding college student aid, and extending health coverage to the uninsured. Opportunities appear in every direction.

But as they make these critical, overdue investments, policymakers must simultaneously govern for the next recession and beyond. As veterans of one of the most severe fiscal downturns in state history, the Governor and legislative leaders learned the hard lessons of Oregon's boom-bust revenue system and should ensure Oregonians are spared from wild swings in public services in the future. While the 2007 legislative session will be known for making investments, it should be known equally as the time state government fully reclaimed its reputation as a competent manager of its fiscal resources.

ACCOMPLISHMENTS TO DATE

√ The 2003 Legislature enacted comprehensive PERS reform that created a separate retirement system for newly hired employees and limited conditions under which more than the PERS guaranteed rate could be credited to Tier 1 members. this reduced the system's unfunded liability from $18.1 billion to $4.6 billion.

√ In 2003, Oregon voters created the Education Stability Fund – the state's first sizable reserve fund. Financed by lottery revenues, the fund supports K-12 and higher education. Assuming no economic downturn, it is forecasted to grow to more than $500 million by 2011.

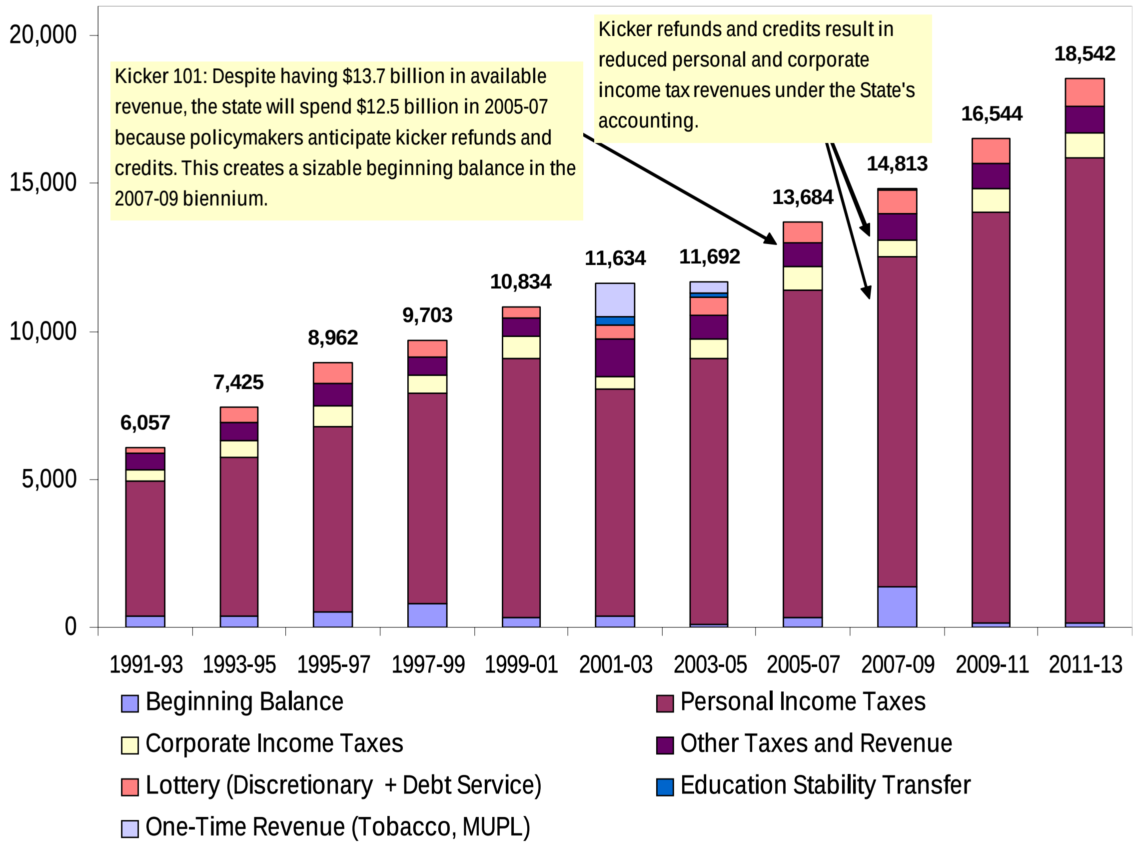
√ Governor Kulongoski, Senator Schrader, and others have pulled the Oregon Benchmarks into the budget process and started the transition to performance budgeting.

Agenda for 2007 and Beyond

As the 2007 Legislature convenes, the state economist forecasts that Oregon will have $14.8 billion in general and discretionary lottery funds available for the 2007-09 biennium – $2.3 billion (or nearly 19 percent) more than the state will spend during 2005-

07 (See Figure 1). That's revenue available in addition to the estimated $1.4 billion in funds for paying out individual and corporate income tax kickers.

Figure 1. Available General Fund and Discretionary Lottery Resources, 1991-93 through 2011-13



Source: ECONorthwest calculation using DAS December 2006 Forecast and data from Legislative Revenue Office

With a budget surplus, policymakers have a rare opportunity to repair past damage to public services, and to plan and invest thoughtfully.

But, there's another opportunity, as well. Oregon is already three years into an economic expansion, and Oregon's hot housing market has cooled. More important, Baby Boomers are aging into retirement. Some will require expensive state and federally funded health services. This is also an opportune time to put the state's fiscal house in order for the long term..

Policymakers need to build an infrastructure to prioritize and manage their public investments. The Oregon Business Plan calls on the Governor and Legislature to:

- ***Develop long-term forecasts to support an expansive policy vision.*** Oregon's budget process is myopic and focused almost exclusively on balancing budgets two years at a time. This session, the Governor will propose education and other initiatives with impacts well beyond the 2007-09 biennium. The state's budget perspective must expand with the Governor's policy perspective. To support a long-term policy vision, the state must routinely forecast expenditures and revenues over a 10-year horizon with a particular focus on understanding dynamics of the fast-growing, and possibility expanded, Medicaid program and the effects of unfunded pension or health care liabilities.

- ***Extend transparent, performance-based budgeting, now proposed for education, to the rest of the budget.*** Traditional budget presentations are opaque and fail to support the budget debate. The Governor has encouraged and supported the development of transparent, performance-based budget tools that clarify revenues and expenditures across the preK-20 continuum. Education's budget tools will be unveiled during the 2007 Session. The Governor should take the best features of the education work and extend the concept to human services, public safety, and transportation during the interim.

- ***Review compensation and ensure public-sector pay supports the state's strategic goals.*** In one of most significant accomplishments of his first term, the Governor led a critical and challenging overhaul of the retirement system for public retirees. His reforms – together with strong investment returns – have reduced the system's unfunded liabilities from an expected $18.1 billion to $4.6 billion. While system costs will remain above average for much of the next decade, the liabilities appear manageable.

  Having overhauled the retirement system, policymakers should now conduct a full review of public sector compensation. The state knows very little about how public compensation stacks up to compensation for similar work in the public sectors of other states, the private sector in Oregon, or any other appropriate benchmark. Policymakers should thoroughly inventory compensation packages and then determine where compensation policies support the state's strategic goals and where they don't.

- ***Grow reserves and launch a debate on tax reform.*** Voters took an important step toward stabilizing the state's fiscal system through the creation of the Education Stability Fund. But given the volatility of income-tax revenues, a clear consensus exists that more needs to be done. Economists have spelled out options that range from incremental expansions of stability funds to comprehensive overhauls of the tax system like that proposed by Senators Schrader, Westlund, Morse, and Deckert. The public's appetite for change will determine how fast and far Oregon moves on tax reform. Regardless of the outcome on taxes changes, policymakers need to expand reserves to prepare for the next recession.

Critical Question
For the 2007 Legislature

Can an education-revenue guarantee and a fast-growing Medicaid program coexist in a budget that also must accommodate prison-sentencing mandates?

If so, for how long, and under what economic conditions?

Develop Long-Term Forecasts to Support an Expansive Policy Vision

The Governor has embraced the vision of a seamless education system that extends from pre-kindergarten to graduate school. And as a top priority, he plans to propose dedicating

61 percent of the General Fund to the education enterprise. Business leaders applaud the Governor's focus on education and call for additional investments across the continuum. As the Governor's policy vision expands beyond the 2007-09 biennium, so must the state's budget perspective. The 2007 Legislature must embrace a long-term fiscal vision.

The state economist already produces a seven-year forecast of general fund and lottery resources. The logical companion to the economist's work is a forecast of expenditures for programs that rely on General Fund and lottery revenue. An objective expenditure forecast would signal whether the long-term budget was structurally in or out of balance and, for the first time, provide policymakers with a strong foundation to evaluate the viability of their proposals.

Despite housing hundreds of individual programs operated by dozens of agencies, the General Fund and lottery budget is dominated by a short list of programs: elementary, secondary, and post-secondary education, Medicaid, and corrections. Taken together, those compose more than three quarters of the General Fund and lottery budget.

Despite housing hundreds of individual programs operated by dozens of agencies, the General Fund and lottery budget is dominated by a short list of programs: education, Medicaid, and corrections.

Going forward, the expected growth in Medicaid is the most uncertain. Once a program that served primarily single mothers and their children, health services for the elderly and people with disabilities now drive Medicaid's costs. The U.S. Congressional Budget Office projects the federal government's share of Medicaid spending will double during 2006-2016

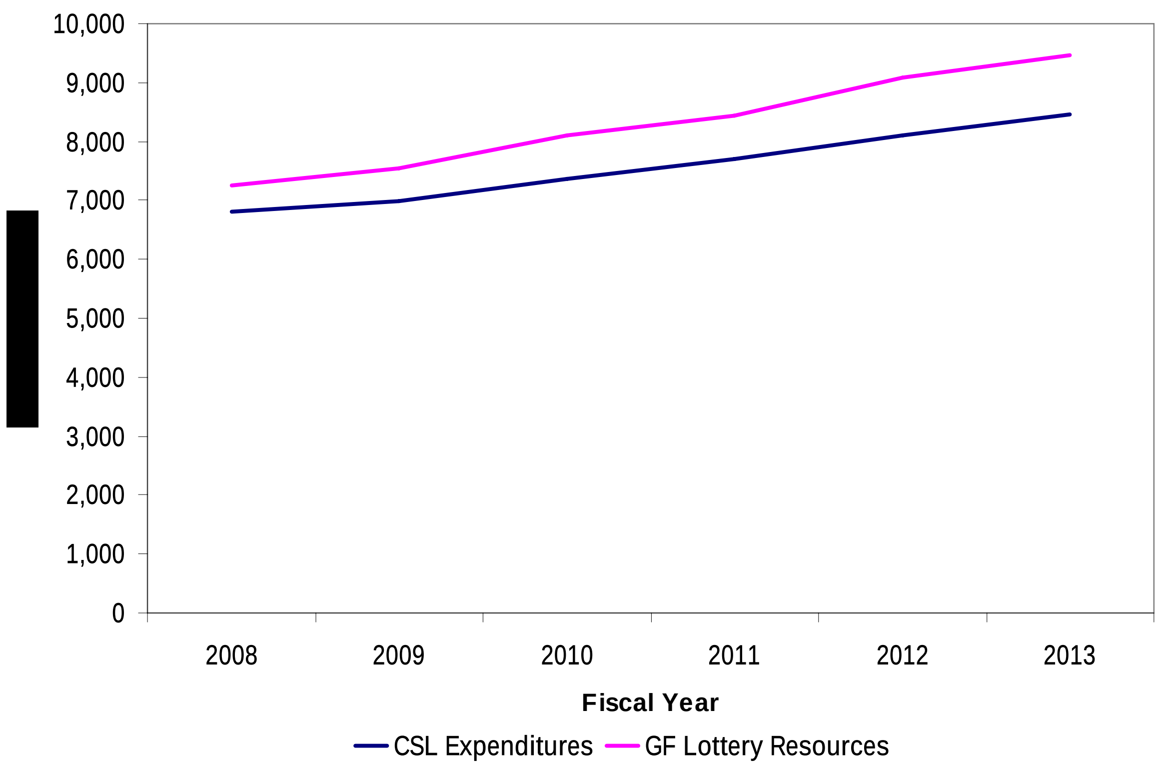
Oregon shares in the cost of Medicaid with the federal government. Analysts look to growth in the elderly population for clues on Medicaid spending growth. Oregon ranks eighth nationally in the expected growth of the age 65 and over population during 2005-2010. Demographers predict the growth in the number of elderly Oregonians will outpace general population growth for much of the next three decades. In addition to well-known demographic cost drivers, policymakers will consider expanding eligibility for the Medicaid program to cover the uninsured and reduce of the cost of charity-related care (see Section 6). Absent a clear sense of Medicaid's intermediate and long-term demands on the budget, Salem's most important policy questions are unanswerable.

The following figures introduce the value of longer-term forecasts. Figure 2 projects current service level spending and General Fund/Lottery resources under current law. Projections are reported by fiscal year rather than by biennium. The expenditure projection assumes Oregon's Medicaid program will experience the same growth anticipated by the federal government If the state expands Medicaid eligibility, the program would grow at even faster rates. The forecast also adopts the Department of Administrative Service's school-, college-, and corrections-related population forecasts and assumes state's labor costs will increase at 3.5 percent annually. So, assuming no new state programs and continued economic growth, the forecast suggests surpluses would continue and actually grow over time.

The Figure 3 forecast incorporates all the same assumptions except one. In Figure 3, the state earmarks 61 percent of general fund revenues to primary, secondary, and higher education. The forecast suggests that – despite the earmark – surpluses remain in fiscal years 2008 and 2009. However, in 2010 and beyond, available resources just match expenditures.

The tight fit begs critical questions. For instance, how would the state accommodate new program expansions outside of education? And, more important, how would the forecasts look under a recession scenario if revenues slowed and Medicaid spending simultaneously accelerated?

Figure 2: General Fund/Lottery Resources and Current Service Expenditures, Fiscal Years 2008-2013

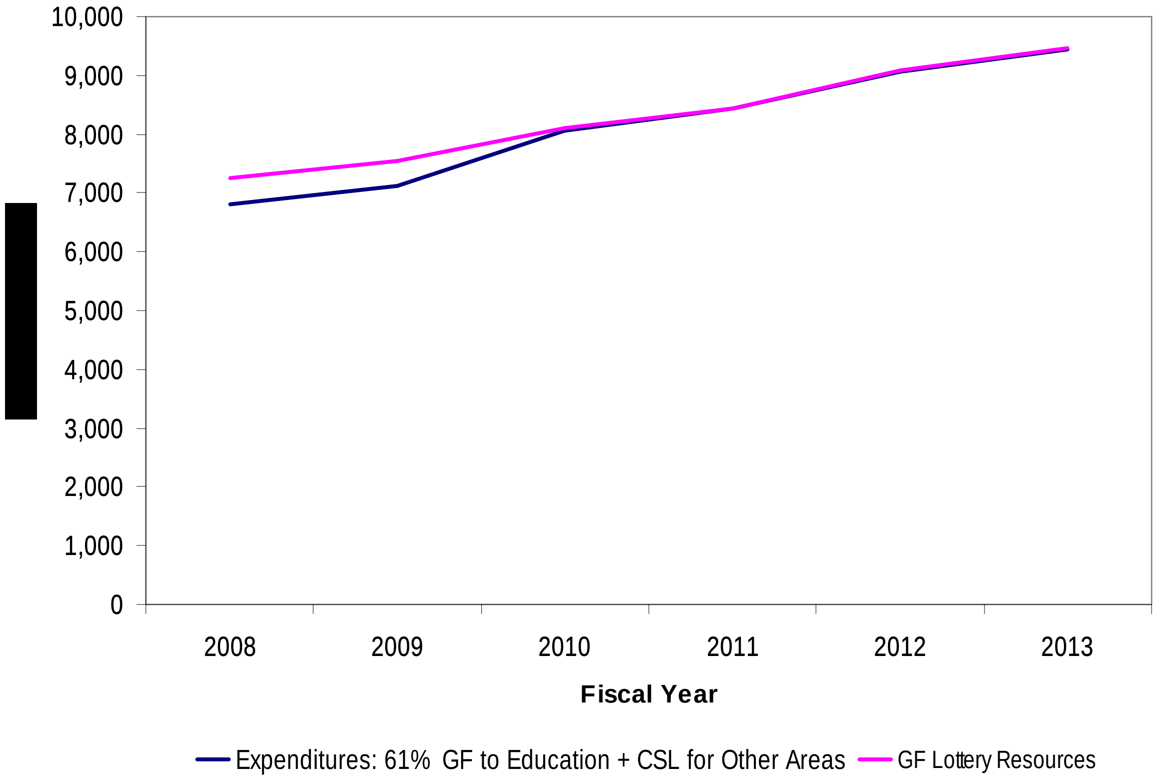


Source: ECONorthwest

The Governor's budget has implicitly anticipated some of the issues by proposing new revenues together with his education earmark. His comprehensive proposal is not reflected in Figure 3. Nevertheless, a prediction of tight budgets beginning in fiscal year 2010 appears reasonable if the state dedicates a fixed share of the budget to education and Medicaid spending grows at high rates.

Again, business leaders support the direction of the Governor's education initiatives but urge policymakers to evaluate rigorously their long-term effects on the state's fiscal position. Education investments must be both bold and sustainable.

Figure 3: General Fund/Lottery Resources and Expenditures Assuming 61 Percent Earmark to Education and Current Service Levels in Other Areas
Fiscal Years 2008-2013



Source: ECONorthwest

Beginning with this biennium, the Governor should consolidate the responsibility of expenditure forecasts with the state economist in the Department of Administrative Service's Office of Economic Analysis. Each quarter, the state economist should develop an expenditure forecast of the General/Lottery Fund with a timeframe consistent with the revenue forecast. The Governor should mandate a 10-year forecast horizon and call for high-, middle-, and low-growth economic assumptions. The "middle" or expected forecast would continue to serve as the foundation for policymaking, while the high- and low-growth scenarios would illustrate the inherent uncertainty of the forecast exercise.

All the technical pieces are in place to forecast state expenditures. The long-term forecast mandate would force agencies to fine tune their projections, improving reliability over time. But, waiting for perfection is not an option. The Governor and Legislature should call for a 10-year forecast of the General/Lottery Fund before approving policies that dedicate shares of the Fund to specific purposes.

Extend Transparent, Performance-Based Budgeting Now Proposed for Education to the Rest of the Budget

The state's budget is an opaque, complex document that fails to illustrate either how state agencies spend their money or what Oregonians get in return. The document reports appropriations in broad biennial categories. It lacks consistent information about number of people who deliver particular services, the number of people who receive them, or how either has changed over time.

The multi-year, multi-billion-dollar presentation framework does little, if anything, to educate policymakers. While a handful of program experts may be fluent in the intricate trends and assumptions that underlie an agency's budget, most observers are left in the dark. They know only that one appropriation level may maintain programs roughly as they exist while deviations from that amount will either expand or contract them. But responsible policymakers and their constituents should know and ask for more.

Turning the budget into a decision-making document requires two steps. First, budget-makers must reorganize and summarize state spending into a more transparent, intuitive, and accessible presentation. Then, the budget document must link program areas with intended performance outcomes.

Step 1, Transparency: Clarifying the Business of State Government. The Department of Administrative Services organizes the Governor's Budget according to who receives and controls resources. Consequently, the budget reads like a roll call of departments, agencies, boards, and commissions. It makes no attempt to highlight the relative importance of different state functions. Health-related licensing boards received a 10-page treatment in the Governor's 2005-07 budget narrative. The Department of Education, which oversees all public pre-kindergarten, elementary, and secondary education, got five pages.

The Governor should reorganize his budget around state government's core goals and accomplishments. The budget should move beyond an inventory of proposed appropriations and clearly identify who provides the resources to operate state government (e.g., state, federal, local, user fees), how state agencies have spent the resources in recent fiscal years, and what the state accomplished with those expenditures.

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The Oregon Education Roundtable has developed a template of a transparent, performance-based budget for the PreK-20 education continuum. The prototype has been circulated widely to policymakers and will be used during the 2007 legislative session. Now, the Oregon Business Plan calls on the Governor and legislature to extend this important work to the rest of the state budget.

The Governor would organize the budget by strategic area rather than programs, departments, agencies, or boards. Within each strategic area, the budget would report *all* the resources available to state government to achieve its goals. For example, in the education area, the Oregon University System's budget currently reports the tuition and fees paid by students, while the budgets of the community college system do not. A revamped budget would report revenues comprehensively and consistently across government.

Next, the transparent budget would characterize how government *spends* its resources. Methods of program delivery vary considerably across state government. Education is labor-intensive. Human service agencies distribute and oversee benefits. Transportation contracts out road and bridge construction. Consequently, meeting a performance goal means different things in different places. In education, school districts, colleges, and universities are focused on attracting and retaining quality teachers, professors, and support staff. Human service agencies need quality case managers and private-sector partners to efficiently and compassionately distribute state and federal assistance to individuals and families in need. The transportation enterprise calls for managers who can identify, prioritize, and implement cost-beneficial projects.

As the transparent budget unveils the varying nature of the work across state government, policymakers will ask better questions. Better questions inspired by transparency are the first step to better governance.

Step 2, Performance: Making the Oregon Benchmarks Relevant. The transparent budget must tie revenues and expenditures to performance. The state has the building blocks to monitor the results of state government. The Oregon Progress Board, through its pioneering benchmark work, periodically updates indicators of Oregon's wellbeing and economic progress. While valuable, the benchmarks work is not used to hold lead agencies accountable for achieving targeted outcomes and is not integrated into the budget process.

To make Oregon's benchmarks relevant, the state must build on the efforts of Governor Kulongoski, Senator Schrader and others to transition from performance *reporting* to performance *budgeting*. Through performance reporting, agencies report key performance indicators, but the system relies on publicity to push institutions to pursue state priorities and improve institutional performance.

By contrast, under performance budgeting, policymakers would explicitly consider achievement on performance indicators as one factor in determining allocations for departments, agencies, and institutions. The wider use of performance budgeting is the logical extension of the Oregon Progress Board's pioneering benchmark work. To advance performance budgeting, Oregon must learn from the national experience. To date, performance budgeting systems have typically served only high-level policymakers: governors, legislators, and high-level department officials. While the performance indicators are well known to some policymakers, they are unknown to front line staff such as teachers, human services case managers, and police officers. With little awareness of the indicators, or what they can do to affect them, state employees have yet to respond to the performance systems in ways that improve quality or efficiency. With these experiences in mind, Oregon policymakers should:

> ***The wider use of performance budgeting is the logical extension of the Oregon Progress Board's pioneering benchmark work.***

- ***Develop performance indicators that are relevant and actionable on the front line.*** If classroom teachers, case managers, and police officers are not discussing the performance indicators and how they can affect them, a performance-driven budget will fail. Some indicators are more useful as broad statewide measures of quality or effectiveness while others lend themselves to front line action. To make indicators relevant on the front line, the state may have to devise actionable indicators that teachers, police officers, and human service case managers believe they can affect.

- ***Establish relationships between funding levels and performance outcomes.*** Some agencies have already taken the courageous step of telling legislative appropriators what change in performance they should expect in return for increased funding and conversely what they would lose with decreased funding. Until such spending and performance relationships are established for all state programs and reported routinely, policymakers will be making funding decisions in the dark – increasing or decreasing funding without a notion of how their choices affect performance.
- ***Determine a review schedule when policymakers would critically assess the relationships between funding and past and future performance.*** Investments take time to produce results. Performance budgeting may function better through a multi-year, but more rigorous, review of investments and performance. Rather than tracking spending and performance year to year, policymakers might consider a four-year span between reviews. While less frequent, the reviews would take on greater importance.

Review Compensation and Ensure That Public Sector Pay Supports the State's Strategic Goals

The Governor and Legislature took critical steps in compensation reform by addressing costs of the Public Employees Retirement System (PERS) during the 2003 session. In April 2003, the program's costs loomed as a significant threat to the state's fiscal and economic health. The system's actuary predicted that PERS' unfunded actuarial liability (UAL) – if unaddressed – would exceed $18 billion, which was more than all the taxes and fees collected by Oregon state and local governments in a given year.

Since 2003, policy changes, legal settlements, strong investment returns, and higher contributions by public employers have improved the system's fiscal position. Mercer Human Resources recently estimated that the system's UAL – as of December 2005 – stood at $4.6 billion.

> ***The time has come to move beyond PERS and consider public employee total compensation.***

While the Oregon Business Plan believes that the Governor, Legislature and PERS Board should remain diligent in looking for additional PERS savings, we believe that the time has come to move beyond PERS and consider public employee total compensation. By total compensation, we mean salary or wages, health coverage, retirement benefits, and other benefits. Does Oregon have the proper level and mix of total compensation? Does Oregon have the best compensation system to attract and retain a talented workforce, to ensure fairness to both taxpayers and employees, and to encourage performance that delivers results for Oregonians?

The truth is, no one knows how well our compensation system is working for us. In addition, it is difficult to find information that allows us to accurately compare total compensation across public sector agencies in Oregon, between Oregon and other states, and with the private sector. The best work done to date in this area was completed by a group of Portland State University MBA students for the Oregon Business Council in 2006. This excellent study is available on the Oregon Business Plan website at www.oregonbusinessplan.org.

The study found that base salaries for some state jobs seem to be at or above competitive levels offered by Oregon private employers and neighboring states. But some jobs – including those of college professors, administrative managers and judges – provide salaries below competitive levels. Oregon also has relatively generous automatic step increases based upon cost of living increases, length of service, and continuing education, rather than the private sector practice of raises based upon performance. This tends to suppress average salaries for new employees while elevating average salaries – and retirement benefits – for employees with long tenures. The study also found the average cost of health care for public employees in Oregon is one of the highest in the nation, and Oregon is one of the few states that pays the entire premium of public employee health care benefits.

The PSU study did not analyze other employee benefits such as vacation, sick leave, compensatory time, tenure, or job security. The study also did not consider stock options, bonuses or other benefits that may be available in the private sector but are not available to public employees. These other benefits must be analyzed as part of a comprehensive study of total compensation.

There are two long-term implications that we see resulting from Oregon's current compensation system. First, Oregon may have a difficult time recruiting new employees, a discouraging factor, as a large and growing proportion of state employees are over the age of 45. Who will carry the torch as these workers retire? Do we have the right system in place to attract talented employees?

Second, the structure of public employee compensation encourages life-long service. In some professions (e.g. prison guards) this may make sense. In others – college professors, economic development professionals, and lawyers, for example – we may actually want more exchange and interaction with the private sector. While we may currently take for granted the benefits of lifelong service, it may be time to question its underlying assumptions and develop a different pay philosophy.

In order to move forward, Oregon needs to do three key things:

- ***First, conduct a new, comprehensive, objective study of the total compensation of Oregon public employees***. Oregon citizens and policy makers need to know the facts. Public employee compensation is one of the largest parts of state and local government budgets and affects the provision of public services.
- ***Second, ensure that compensation for public employees is competitive***. Compensation needs to be fair to both public employees and taxpayers, and must be structured to attract, retain and motivate a quality public workforce.
- ***Third, consider not only the level of compensation but also compensation philosophy***. Public employee compensation should be designed to encourage and reward performance and results. For example, the current system doesn't reward performance, initiative, or innovation.

Specifically, the Governor should appoint an independent blue-ribbon commission to evaluate all components of public employee total compensation. This panel should:

- ***Conduct a study on public employee compensation in Oregon*** and how it compares to compensation provided by Oregon private employers and by public entities in neighboring states. State and local governments must be open with the necessary information. The state must provide adequate resources to hire independent professional help to conduct this study.

- ***Adopt a standard to evaluate total public employee compensation*** and ensure that the system attracts and retains a high-quality workforce, is fair to both employees and taxpayers, and delivers measurable results for Oregonians. As a general principle, total compensation and, to the extent possible, each component of compensation, paid to Oregon public employees should be competitive with the compensation for comparable jobs in Oregon's private sector. Where no comparable jobs exist, public employee compensation should generally be competitive with comparable public sector jobs in neighboring states.

- ***Make recommendations to align Oregon's current system with the adopted standard.*** The commission should recommend a plan for transitioning to the proposed system. Almost all changes in compensation must be negotiated with the appropriate public employee unions. This process provides a desirable check and balance, and ensures that the wishes and interests of public employees are represented and protected. However, the union and management negotiating teams also have an obligation to Oregon taxpayers, who expect reasonable public employee compensation. The negotiated outcomes must be transparent to the public and reasons provided for deviations from the competitive standard.

  The panel should consider the role of risk and uncertainty in compensation when comparing to the private sector. If public sector tenure and compensation remains highly predictable, public employees should receive less compensation than they would have received in the riskier or less stable jobs more common in the private sector.

  The panel also should consider relative performance and productivity. Oregonians ultimately care about comparable quality of services at comparable delivered costs. It's not sufficient to have comparable compensation if the performance of the public sector is significantly different from the performance of the private sector. The system's design should reward high performance and productivity.

Finally, Oregon state government needs to focus high-level management attention to the issues of public employee compensation, performance and productivity. The Governor, Director of the Department of Administrative Services and other top managers need to make employee costs and management a top priority. The state should retain a high-level human resources professional with significant private sector experience to monitor public employee compensation for competitiveness and to ensure that the system encourages performance. The state should regularly update the report of the blue ribbon commission and report on progress to Oregon taxpayers. The Governor and state managers need to provide leadership for a high performance workplace. Oregon public employees should be eligible for above average compensation if and to the extent they operate at above average levels of productivity and produce extraordinary results for Oregonians.

Grow Reserves and Launch a Debate on Tax Reform

The creation of the Education Stability Fund was an important first step to stabilizing the state's fiscal position, but a broad consensus exists that the fund fills too slowly and remains too small to stabilize an extraordinary volatile revenue system. In its final days, the 2005 legislature tried but failed to double the size of the fund and dedicate ending balances to it. The expansion of the stability fund should be the legislature's first order of business. Policymakers should make a firm commitment to reserves before they initiate new programs or increase funding for existing programs.

Setting reserves at a target of 10 percent of the General Fund rather than the existing 5 percent cap for the Education Stability Fund would create a stronger buffer against future downturns in the economy. And policymakers should work to more rapidly reach that 10 percent target. There is one step that would help immediately: the Legislature should budget for a two-percent ending balance and, if revenue projections hold, roll the balance into the stability fund.

> ***"To me, this forecast reminds us to save, save, save and then save."***
>
> ***Senator Ryan Deckert (D-Beaverton) commenting on the December 2006 Revenue Forecast. November 22, 2006***

With the stability fund expanded, policymakers can then turn their attention to a longer-term discussion about fundamental tax reform. Oregon's reliance on the volatile income tax persists (see table below). The income tax composed 72 percent of state revenues in fiscal year 2005, making Oregon the state government most reliant upon a single revenue source. Washington's reliance on the sales tax ranked second, but sales tax revenues are more stable during economic downturns.

State Senators Kurt Schrader, Frank Morse, Ben Westlund, and Ryan Deckert have advanced a bi-partisan fundamental tax reform plan that is worthy of serious debate. Their comprehensive reform proposal would institute sales taxes in exchange for reductions in income, capital gains, and property taxes. Oregon's Legislative Revenue Office predicts the proposal would both increase state revenue and spur economic growth. The Oregon Business Plan, which has consistently favored a more balanced revenue structure, applauds the effort to mitigate Oregon's unhealthy dependence on income tax receipts.

As with any comprehensive reform, the devil is in the details. Comprehensive overhauls of the tax system inevitability create winners and losers across the state and initiate important debates about adequacy and equity of state revenue. The state senators' plan results in a net biennial increase of $1 billion in state revenue, so policymakers and taxpayers will need to be educated about the need for addition revenue. A clear answer to that question seems elusive in the absence of the long-term budget forecasts and reforms discussed earlier in this paper.

Finally, a proposal to shift to the sales tax will launch debates about who pays it. By the nature of their markets, some businesses will pass some or all of the tax onto customers. Other businesses will absorb the tax.

A rigorous debate on comprehensive tax reform is overdue, and business leaders look forward to working with parties across the political spectrum to analyze and consider a full range of policy options. And, if comprehensive reform is to succeed, the public must be brought along through a robust education, marketing, and communications effort.

Alongside, the Senators' comprehensive plan, policymakers will consider a number of incremental reforms to Oregon's tax code, including changes to the minimum corporate income tax and cigarette taxes. Business leaders are eager to discuss any number of incremental tax changes but strongly believe the state needs to clarify its fiscal position—through long-term forecasts—before it either significantly increases or decreases revenues. Finally, as a matter of principle, business leaders are generally opposed to earmarking new taxes to specific programs. While revenue and program needs may align at the time of implementation, they inevitably grow out of alignment as time passes and hinder budget and policy decisions of future policymakers.

Table 1: Share of Total State Revenue for Largest State Revenue Source, CY 2005 (Top Ten States)

State	Revenue Source	Share of Total State Revenue (percent)
Oregon	Individual Income	72.0
Washington	Sales	61.6
Tennessee	Sales	61.1
Florida	Sales	56.2
New York	Individual Income	56.0
South Dakota	Sales	56.0
Alaska	Other (Severence)	55.6
Massachusetts	Individual Income	53.8
Wyoming	Other	52.7
Virginia	Individual Income	52.5

Source: Federation of Tax Administrators and U.S. Bureau of the Census

Work with the U.S. Congress to Restore Lost Federal Timber Revenue in 18 Counties

The U.S. Congress passed the Oregon and California (O&C) Act of 1937 to compensate counties for homestead land reclaimed by the federal government. The payments, which were linked to timber harvests on federal lands, reflected the federal government's intent to compensate counties for having taken properties of the county tax rolls. O&C payments declined because of reduced timber harvests in the late 1980s and 1990s. In response, Congress authorized substitute payments through Public Law 106-393 (Secure Rural School Act) in 2000.

PL 106-393 expired on September 30, 2006, and the federal government sent its last payment on December 1. The payments compose a large share of the general funds of the affected counties. For example with the loss of the PL 106-393 payment, Josephine County's general fund revenue is expected to decrease from $21 million in 2006-07 to only $8 million in 2007-08.

The Governor and State Legislature must work with the affected counties and new Congress to restore federal funding of critical local services.

Public Finance Initiative Leaders

Malia Wasson, US Bank
Ron Parker
Brett Wilcox, Summit Power Alternative Resources
Ken Thrasher, Compli
Ray Guenther

Background Resources

"Analysis of Oregon Public Employee Compensation" (PDF) – Prepared by PSU MBA Students for the Oregon Business Council (June 2006)
"Providing Stable and Adequate Funding For Public Services" (PDF) – Oregon Business Plan White Paper (January 2005)
Summit 2003 Discussion Paper: Public Finance (PDF) – December 2003
"Making Government Work For Oregonians" (PDF) – January 2004 Report by Advisory Committee on Government Performance and Accountability)
"Oregon Budget Principles"–See Governor's Web Site, www.governor.oregon.gov/Gov/budget/future.shtml
"Grading the States" -- Government Performance Project Website

5. EDUCATON AND WORKFORCE

RECOMMENDATIONS

To raise and sustain Oregon's economic competitiveness and quality of life, the state must develop the capacity of Oregonians to participate in high-value work and civic activities. Oregon must educate more Oregonians at higher levels than ever before, which requires a fundamental redesign and prioritized investment in our PreK-20 education systems. Oregon also must include all qualified workers in the workforce. The recommendations that follow support the goals and objectives of the Oregon Workforce Investment Board's strategic plan, "Winning in the Global Market."

Oregon should:

1. Integrate education systems and practices to help students move easily and successfully as far as they want to go in the PreK-20 continuum. Toward that end,
   - Align curriculum standards, proficiencies, and assessments across public PreK-20 education, with particular focus on points where students must be prepared to make the most difficult transitions.
   - Adopt more rigorous high school graduation requirements based on knowledge and skills needed for success in post-secondary education and work, and make postsecondary study and credit easily accessible to high school students ready to move to that level of study.
   - Offer curriculum and instruction to prepare students for high-demand occupations (currently, engineering, construction trades, health care, and manufacturing).
2. Create and adopt a unified, transparent, student-centered budget at the state level to help shape priorities and tie funding levels to performance outcomes.
3. Continue to build an integrated data system to measure student progress, ease student transfer, help students plan their education path, and hold institutions accountable for results.
4. Study the implications for governance, delivery, and accountability in a PreK-20 enterprise featuring the redesign elements described above.
5. Make needed investments in various initiatives that have measurable student achievement gains across the PreK-20 continuum, reflect workforce priorities, produce efficiency and productivity gains, or increase system accountability. See page 52 for specific recommendations.
6. To address projected worker shortages, widen the pool of qualified workers by including everyone with the skills and desire to be in the workforce. Toward that end,
   - Increase inclusion of and accommodations for skilled Oregonians with disabilities.
   - Increase the size and stability of Oregon's workforce while improving safety and productivity by supporting drug-free work environments and workplace policies to reduce drug use.

Vision

For its companies and its economy to compete effectively in the global marketplace, Oregon must maximize its potential workforce. That means it must educate as many of its people possible at the highest levels to which they aspire, and it must encourage an inclusive workplace that utilizes all pools of talent available. All competitive, efficient enterprises require well-educated, skilled employees. This is particularly true of businesses that compete globally through innovation and value-added manufacturing, services, marketing, distribution, and other processes driven by knowledge workers. Such employees are going to be in shorter supply in coming years as the economy expands and as the Baby Boom generation, with its reservoir of knowledge and skills, reaches retirement.

To fill the workforce needs created by these retirements and the evolving economy, Oregon must pursue two key strategies. First, our education and workforce enterprise must educate more Oregonians to higher levels than ever before. This means that everyone must be encouraged to participate in education and must have access to support systems designed to foster such participation. This includes students from low-income backgrounds, immigrants, minorities, and those who are first-in-family to advance into postsecondary education. Second, Oregon must include everyone who is willing and able to participate in the workforce. Among working-age adults, this includes those who are displaced, in transition, or who may require some accommodation such as older adults, working parents, or people with disabilities. Additionally, public and private collaboration has an opportunity to expand the pool of skilled workers by aggressive drug prevention and rehabilitation efforts.

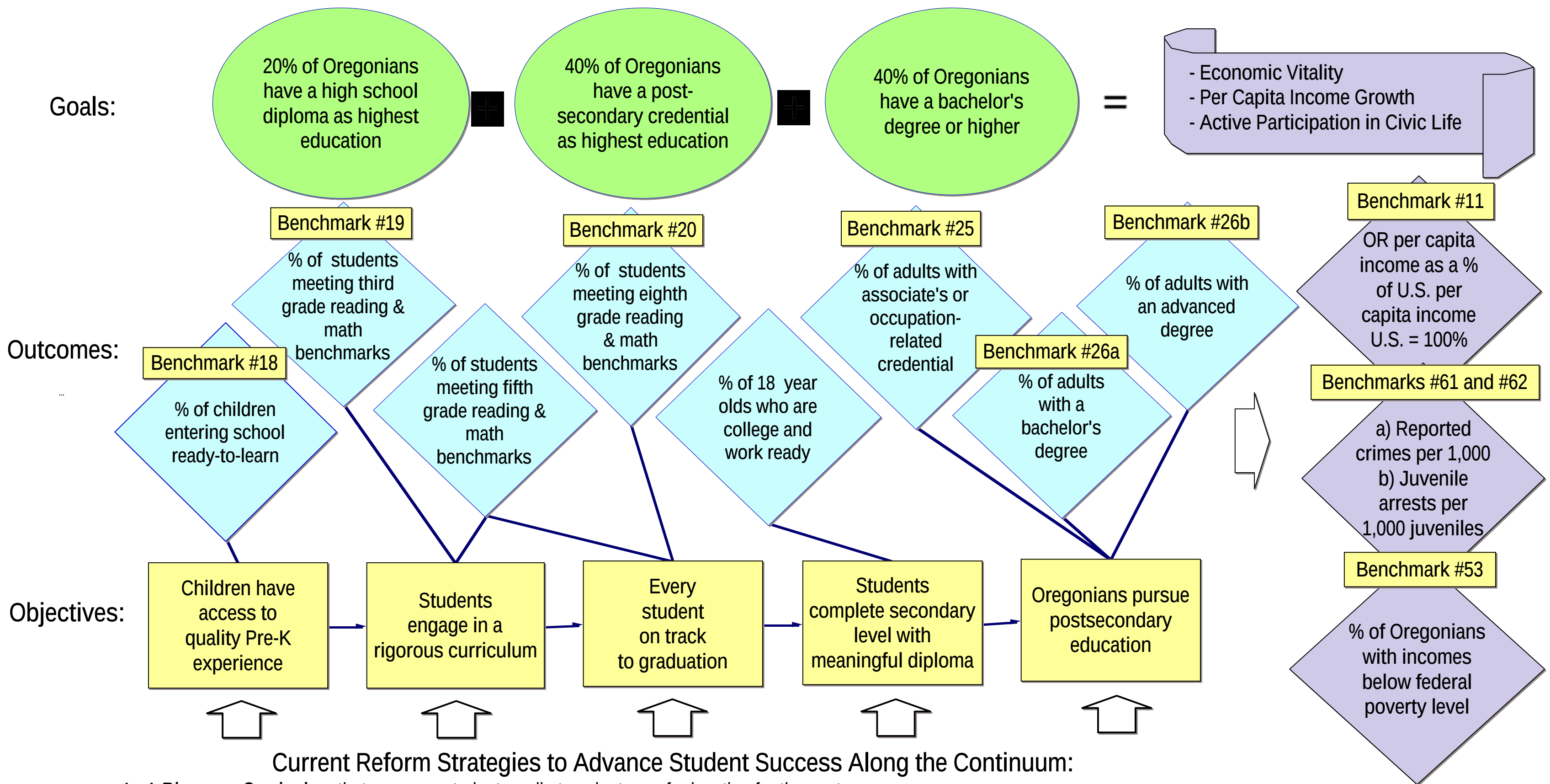
The Vision Is Critical for Oregon

For its companies and its economy to compete effectively in the global marketplace, Oregon must ramp its education achievement and workforce preparation to unprecedented levels – specifically, 20-40-40. Twenty percent of Oregonians should have no less than a high school diploma as their highest level of attainment; 40 percent should have an associate's degree or equivalent certification as their highest attainment; and the remaining 40 percent should have a bachelor's degree, including at least 20 percent who also have a graduate degree. Statistically, a portion of this achievement will come from newcomers, but Oregon will have to meet most of this high standard in the education it provides its own citizens. The stakes could not be clearer. Low-paying jobs will not support families or the Oregon economy. Increasingly, both low- and medium-paying manufacturing jobs, and even many service jobs, are going offshore or falling to automation. All jobs that pay well increasingly require higher levels of education and work readiness.

Because Oregon's education systems do not have the capacity to meet the 20-40-40 vision, they must be fundamentally redesigned as a cohesive enterprise.

Because Oregon's education systems do not have the capacity to meet the 20-40-40 vision, they must be fundamentally redesigned as a cohesive enterprise. The redesign envisioned should result in a seamless education enterprise that starts in pre-kindergarten and extends through graduate school. It should offer greater access to learning that is personalized, connected to the demands of work and citizenship, and relevant to the student's life experience and goals. It should prepare students well at each stage to move to the next stage. At the postsecondary level, it should afford every student access to as much education as he or she desires. That education should be affordable and should offer smooth pathways, capacity, and personal support to help students complete their studies. Furthermore, the system should offer easy access to workers who seek to return to the education system to upgrade their skills or earn additional credentials throughout their lives. Finally, the system should recognize that education is a shared responsibility of effort and engagement between the student and the state. Education can only succeed if both parties commit the required time, effort, and resources.

The Impact on Oregon: An Aligned PK-20 Education System



Current Reform Strategies to Advance Student Success Along the Continuum:

1. A **Rigorous Curriculum** that prepares students well at each stage of education for the next.
2. A **Data System** that provides regular and timely feedback on individual student progress and that aids credit transfer and institutional accountability.
3. A **Unified Budget** that invests in what works to advance students' academic progress and divests efforts that produce an insufficient return on student success.

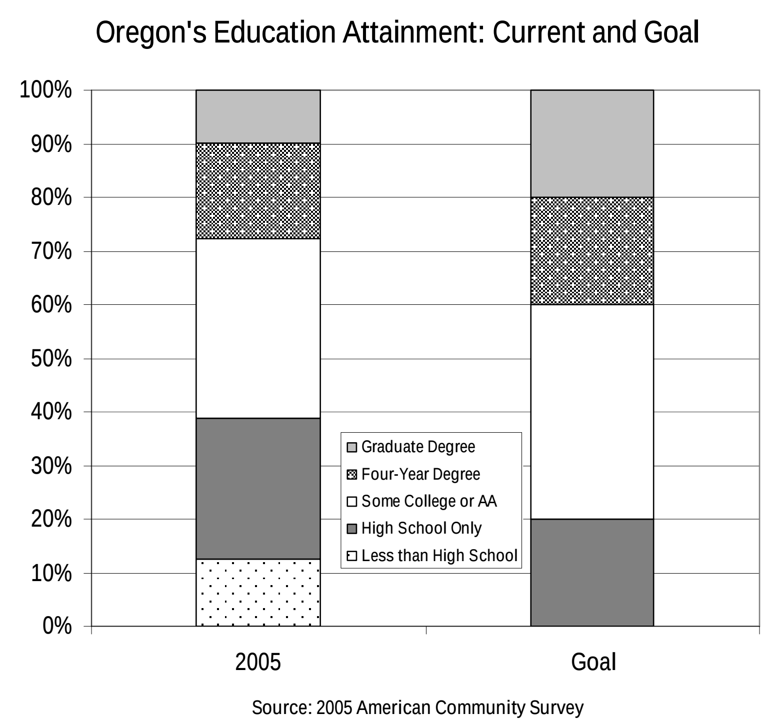
This figure was developed in the course of work done by a group of legislators committed to aligning Oregon's PreK-20 education systems to achieve the 20-40-40 vision. It illustrates the impact of an aligned Oregon education system. Using research from the Oregon Education Roundtable and the Oregon Progress Board, it shows the relationship between high-level goals and the benchmarks by which Oregon can measure the outcomes of its education system. Legislators involved include Rep. John Dallum (R), Sen. Ryan Deckert (D), Sen. Richard Devlin (D), Rep. Linda Flores (R), Rep. Betty Komp (D), Rep. Susan Morgan (R), Rep. Arnie Roblan (D), Sen. Kurt Schrader (D), and Sen. Bruce Starr (R)

While Oregon works to increase education attainment in order to develop its future workforce, it should, in the meantime, make fuller use of existing skilled labor pools, including those it has failed to sufficiently engage. This includes a growing pool of skilled workers with disabilities. In 2002, there were 408,304 people with disabilities of working age in Oregon, 41.5 percent of whom are employed for wages. People with disabilities are as likely to attend college and win degrees or advanced degrees as their non-disabled counterparts and as likely to be self-employed. In the job market, however, Oregon citizens with disabilities are 30 percent less likely to land jobs than people without disabilities. Oregon can neither afford to lose the opportunity to hire skilled workers with disabilities nor lose workers to disability or injury for long periods. Instead, Oregon businesses must develop and share strategies to accommodate and engage skilled workers with disabilities.

One significant way that Oregon can avoid loss of workforce talent – and improve workplace safety and productivity – is by promoting a drug-free environment and supporting programs to reduce drug use. Many employers cite drug use as a significant factor which limits the available pool from which they can hire new employees and which hurts the productivity, safety, and stability of their existing workforce. Programs such as those that educate current employees, potential employees, and even high school students about the expectations of drug-free workplaces, that provide treatment for current drug users, and that support employers in developing drug-free workplace policies expand the competitive workforce by reducing loss of existing and potential workers.

Challenges in Achieving the Vision

As the table above illustrates, Oregon's education and workforce officials have been working diligently the past year on many of the issues described in this initiative. However, everything done so far represents just early steps in the right direction. As the adjacent chart shows, our current education and workforce systems do not produce the high percentages of well-educated, work-ready graduates that Oregon needs in the 20-40-40 vision. These obsolete systems, created in the early and mid 1900s, were not designed to meet the education needs of the 21st century. To meet such demands as the 20-40-40 vision, our education systems will require substantial redesign.



Though current systems are not designed to meet goals as ambitious as 20-40-40, they are well entrenched and resistant to change. Redesigning them will require significant resources, effort, and public will.

HIGHLIGHTS OF
2006 ACCOMPLISHMENTS

- √ The State Board of Education is finalizing new, more rigorous high school graduation requirements, with approval expected in January.
- √ The Department of Education, high schools, community colleges, and universities worked together to implement the Expanded Options program to create addition paths for qualified high school students to earn postsecondary credit.
- √ Coordinated by the Board of Higher Education, all Oregon postsecondary institutions standardized their advanced placement credit policies.
- √ With leadership from the Joint Boards, Oregon's university and community college systems have implemented student transfer and dual enrollment procedures more accessible to students.
- √ The Board of Higher Education helped lead efforts to create career pathways to facilitate students' preparation for specific high-demand careers.
- √ The Business Education Compact (BEC), working with the manufacturing cluster, is launching a pilot to expand its internship program to include opportunities for students interested in trade-related careers.
- √ The Governor's proposed 2007-2009 budget recommends increased investment in education across the board, including full funding for Head Start and a significant increase in need-based financial aid.
- √ The Board of Higher Education developed the Shared Responsibility Model as a better way to distribute state need-based financial aid. The Governor endorsed this model in his proposed budget.
- √ The Chalkboard Project fully implemented Phase I of its Open Book$ initiative.
- √ Over 50,000 Oregonians shared their opinions with Chalkboard in 2006, bringing the total number who have participated to over 100,000.
- √ In fall 2006, 19 small public high schools opened with support from E3's Oregon Small Schools Initiative (funded by the Gates Foundation and Meyer Memorial Trust), bringing its total number of schools to 30.
- √ Over 100 employers have signed up to participate in the Employer Classroom Challenge, sponsored jointly by Chalkboard Project, E3, and the Oregon Business Plan.
- √ The Oregon Workforce Investment Board published its strategic plan, "Winning in the Global Marketplace: Competitive Companies, Productive People, Innovative Ideas."

System redesign also is hampered by incomplete, inaccessible, or unclear data. Existing information systems do not provide the comprehensive data about students, budgets, and system performance that is necessary for informed decision-making about the education enterprise. This challenge is addressed through budget and data system proposals long recommended by the Oregon Business Plan and restated here.

Government structures and processes in both the legislative and executive branches, including administrative agencies, present further challenges. These processes are not structured to facilitate comprehensive analysis of system strengths and weaknesses and support redesign where necessary. Just as individual education systems are disconnected, so are government processes, preventing efficient operation, free flow of information, and fully informed decision making.

Generally, public opinion does not reflect recognition of the economic imperative for increased education attainment, creating another barrier to system redesign. While some

Oregonians recognized that higher academic standards and increased postsecondary education are essential to the state's economic competitiveness, many others still believe that postsecondary education is unnecessary for individual or state success. To create a sustainable, globally competitive economy for the 21st century, it is vital that all Oregonians understand why the 20-40-40 vision of education attainment is necessary.

The current mismatch between K-12 academic requirements, postsecondary requirements, and employer expectations create further challenges to achieving the vision. Many employers have not been involved with helping develop the standards, proficiencies, and assessments of the PreK-20 education system, resulting in a mismatch between education and workforce standards. Similarly, many community colleges and universities have not been fully engaged in developing K-12 standards, proficiencies, and assessments, creating misalignment between high school graduation requirements and postsecondary entry and placement expectations.

The effort to expand workforce participation by skilled disabled workers faces cultural and communication hurdles. For example, a 2002 Oregon study of employed people with disabilities found that 27 percent believed they had been refused a job interview because of their disability, 31 percent said they were refused a job because of it, and 21 percent said they had been denied a workplace accommodation. Many employers do not have experience with or strategies in place to tap the resources of nontraditional worker pools, and they will need models and information resources on how they can better employ and accommodate workers with disabilities.

Agenda for 2007 and Beyond

Here are the action items for the education and workforce initiative in 2007 and beyond. It bears repeating that these action items are vitally important if Oregon is to close the gap between its need for a highly educated, engaged workforce, and the present capacity of its education and workforce systems to produce such a workforce.

1. Learning Standards and Curriculum Integration. Significant systemic changes are going to be required in achievement standards and curriculum design and integration at least through the lower division collegiate level. At the beginning of the education pipeline, students must enter the first grade ready to learn. By middle school they should be adept in reading and math in particular. By the eighth grade they should be ready for rigorous high school learning. High schools must require higher graduation standards, give students closer support, and allow them to progress as fast as they want to go, even if they take collegiate level courses alongside their high school classes. High school learning standards must align with lower division collegiate courses so students can move smoothly into college without the need for remedial instruction in reading, math, and writing.

In developing its proposed high school graduation requirements, the State Board of Education engaged in extensive public conversation both with stakeholder groups and with the general public.

Recommendation: For the 2007 legislative session, state education officials should have a package of proposals ready to raise high school graduation requirements and to integrate curriculum standards, proficiencies, assessments, and credits within the K-12 system, between the K-12 and postsecondary systems, and within the lower division postsecondary curriculum at Oregon's community colleges and state universities. The aim of the redesign should be to help students connect learning with future goals, learn at their own pace, navigate as easily as possible from one step to the next, and attain the highest levels of education to which the aspire.

State postsecondary officials, led by the Joint Boards, are making progress in developing a uniform lower division General Education curriculum.

Much work is already being done along these lines. On standards, for example, the State Board of Education is on the verge of sending the Legislature the most far-reaching recommendations for high school standards in Oregon history, a set of standards developed through extensive public conversation with stakeholder groups and the general public. On curriculum alignment, state postsecondary officials, led by the Joint Boards, are making progress in developing a uniform lower division General Education curriculum

Features of the redesign should include:

- High school skill and knowledge requirements that represent what all students need to master to succeed in further school, work, life, and citizenship
- Common curriculum standards and assessments for similar classes across systems
- Common assessments for advancement and placement
- Exit standards for one stage matched to entry requirements for the next
- Student credit for learning in a variety of venues, including internships, integrated classes, and internet-based learning

2. Unified, Student-Based Budgeting. For years, Oregon has been making the vast majority of its public education investment through blanket funding of three system "silos" – K-12 districts, community colleges, and state universities. A small share goes to need-based postsecondary aid. Rather than allocate multi-million-dollar sums broadly to competing systems, the state should have a unified PreK-20 budget and fund distinct education programs across the continuum with an eye toward particular student outcomes. It should measure the effectiveness of those investments against specific performance criteria.

Budgeting and spending public education dollars this way confers significant investment control. In particular, it would enable us to analyze and, if necessary, adjust:

- How much we spend *per student* at various levels, how that has changed over time, whether per-student spending is adequate to achieve particular outcomes, and, if not, what additional resources are needed and what would they buy
- Non-classroom inputs to a quality education, how much we spend on them, and whether we could get a better return on our investment

- What drives labor costs (e.g., salaries, retirement benefits, health care benefits, contracted labor) and what share of our labor expenses fall in instructional and non-instructional categories
- Different types of programs delivered through the continuum, what their goals are, whether they are being met, and whether investment or disinvestment at one level of the continuum directly impact spending or outcomes at another level

Public schools, community colleges, and state universities, working together, are making progress toward a unified data system.

- Whether students and parents are asked to share in the cost of education, where so, where not, and why
- How change in postsecondary spending affect enrollments at Oregon public colleges and universities, in particular tuition levels, and where students go if they don't enroll
- Comparable program costs and outcomes among institutions.

In developing his 2007-2009 budget, Governor Kulongoski took significant steps toward using a more unified, transparent, performance-based budget. His education spending recommendations are based on consideration of education as a unified PreK-20 continuum, with a focus on initiatives that will produce system results and student achievement gains across the continuum.

Recommendation: During the 2007 session, the Legislature should use unified, transparent, student-based budget tools to set priorities and make decisions about education policy and spending. All budget and policy decisions also should take into account past, current, and expected education system and student performance results. During the interim, both the Legislature and the Governor should take steps to ensure that the unified, transparent, student-based performance budget is permanently implemented as the budget mechanism for all future Oregon education budgets.

The Governor and Legislature are moving toward adoption of an integrated education budget

- The business and philanthropic community should continue to provide assistance to the Governor and the Legislature to help them create a unified, transparent, student-based performance budget for the PreK-20 education continuum.
- With per student spending and enrollment well characterized at each level of the continuum, the state should develop a base education-expenditure floor. Each year the state would determine funding based on projected changes in enrollment and an educator compensation index. Enrollment and staff compensation are the major drivers of the education sector’s costs. The state already forecasts enrollments at most levels of education. Change in salaries and benefits of teachers, professors, and staff should be linked to compensation growth of professionals in the private sector. Together, the enrollment and compensation indices would show how much schools, colleges, and universities would need to maintain their service levels. The Governor

and Legislature would fund that floor with the expectation that performance would, at a minimum, remain constant. Policymakers could procure higher performance through additional, targeted investments.

3. Integrated Data System Development. As the Oregon Education Roundtable has agreed, Oregon should be persistent in integrating and improving its student data systems. The process will take time, patience, and resources, but the benefits will make the effort worthwhile. Oregon is on the verge of creating uniform, integrated, and automated student records to facilitate efficient transfer of student credits from school to school, both within and between education systems. This is a significant and much needed accomplishment to improve student pathways, but it represents just the down payment on a much larger commitment needed to improve and integrate data systems across the education spectrum in Oregon. As indicated earlier, if Oregon embraces this commitment and does its work well, students will have better information about their skill development and education planning choices. Schools and policymakers will be able to track student achievement and persistence more accurately. Longitudinal data, now in short supply across most state education systems, including Oregon, will make it easier to improve curriculum, instruction, and student services, and to hold institutions accountable for results.

Education officials must develop a robust student plan and profile in order to help students map the path to their education goals and track their progress. This part of the data system should also provide information on higher-grade requirements for lower-grade students and their parents. With this capability, students and their parents should know the full range of curriculum and assessment requirements along the full length of the pathway so there will be no surprises, no students who come up short. Students, parents, teachers, and counselors should be able to go online, at any time, at any grade level, and compare a student's progress against the student's goals and against the requirements of a particular academic pathway.

The system wide implementation of the data system to accommodate student plan and profile will be accomplished in stages. The Department of Education has designed the data system framework for the transfer of student records (the student profile), and is currently piloting this system. Full implementation of the student record component of the data system is expected in the 2009-2011 biennium. Work on integrating the student plan with the data system is proceeding more slowly, and it is complicated by the need to comply with the restrictions of the Family Education Rights and Privacy Act (FERPA). Currently there is no estimated date to implement this component of the data system.

Recommendation. Fully implement the student record portion of the data system no later than the expected implementation date of the 2009-2011 and the student plan portion no later than the target date of 2011-2013. Given the importance of this work to the success of individual students and improved system performance, education officials should do everything possible to implement both portions of the data system sooner than these target dates.

4. Implications of System Redesign. Accomplishing the extensive redesign recommendations above will create new pressures and opportunities to align governance and service delivery systems with the PreK-20 continuum. Oregon needs to understand the implications for existing governance and delivery systems, including what costs or benefits might result, how new or altered systems might better take advantage of new opportunities or manage costs, what those systems might look like, and what trade-offs might be involved in the creation of those new systems. For example, one issue for consideration is determining the best policy mechanisms to prompt systems and institutions to find economic efficiencies.

***Recommendation*:** In 2007 the Oregon Education Roundtable should undertake a study or related studies of the implications for governance, service delivery, and accountability in a PreK-20 enterprise redesigned to achieve curriculum integration, unified education budgeting, and data system integration. Representatives of the executive and legislative branches of state government, and of state and local education agencies, should take part in the study to ensure that it reflects existing challenges and new opportunities.

Oregon has achieved unprecedented public, private, and philanthropic collaboration on education, evidenced by such efforts as the Oregon Small Schools Initiative, Chalkboard Project, and the Oregon Education Roundtable.

5. Specific Education Improvement Opportunities. A wide range of groups have developed specific initiatives to improve education in Oregon. Many of these initiatives reflect thoughtful work in education over time, significant research into effective education practices, and careful outreach processes to determine the preferences and priorities of Oregonians. Some of the many groups proposing initiatives include the Chalkboard Project, the Children's Institute, Stand for Children, the State Board of Education, the Board of Higher Education, the Joint Boards, the Engineering and Technology Industry Council (ETIC), and the Oregon Workforce Investment Board.

The process for choosing which proposed initiative to support in the Oregon Business Plan, considered four key criteria:

- Does the initiative produce measurable achievement gains for students across the continuum?
- Does the initiative reflect workforce and employer priorities?
- Does the initiative create efficiency and productivity gains?
- Does the initiative create a mechanism to promote increased accountability within the education system?

The Business Plan considered initiatives that met any of these criteria, but favored those that met more than one. Additionally, the Business Plan favored initiatives with specific accountability measures tied to them to allow the Legislature to evaluate the effects of its investment using the unified, transparent, student-based performance budget.

***Recommendation*:** The Oregon Business Plan recommends the following education investments in the 2007-2009 biennium:

- Make the Oregon Head Start Prekindergarten program accessible to all eligible students
- Use School Improvement Fund grants to lower class sizes, beginning with kindergarten and first grade
- Provide reading tutors for all students not reading at grade level in K-3

- Support implementation of new, more rigorous high school diploma requirements
- Increase need-based financial aid for students pursuing higher education (Oregon Opportunity Grants) using the new Shared Responsibility Model
- Increase funding for engineering (ETIC programs), manufacturing, health care, and professional technical credentialing
- Support continuing education of displaced, transitional, and incumbent workers
- Support teacher and administrator mentor programs and professional development, requiring that professional development be tied to student achievement and school performance goals
- Continue funding for PreK-20 integrated data system development, including enhancements to assessments
- Revise the school bus funding formula and launch a study of long-term student transport options
- Create state level capacity for system performance reviews, with incentives for efficiency gains.

6a. Greater Inclusion of Skilled Workers with Disabilities in the Workforce. Individuals with disabilities represent a highly qualified worker pool that, with proper accommodation, can bring much needed skills and talent to the workforce. We must adopt business strategies that demonstrate that recruiting and retaining workers with disabilities is good for business. The Oregon Business Leadership Network, together with Oregon businesses and public sector partners, should work to:

- Develop a private/public clearinghouse of accommodation resources and brokerages that provide quick access for businesses to Oregon resources around workplace accommodation in a way that meets business needs within sectors.
- Initiate a dialogue between businesses and state resource organizations around creating mechanisms for a smoother interface between accommodation expertise and Oregon business.
- Maintain an interactive website that provides a forum for business-to-business networking, and establish strategic links with national, regional, state, and local expertise on accommodation.
- Provide a series of business-led leadership forums on linking accommodation strategies and measures to business plans.

6b. Drug-free Oregon Workforce. Businesses in five of nine Oregon Business Plan Bus Tour stops in 2004 identified drug use as a key obstacle to hiring otherwise qualified workers, and the percentage of Oregon employers identifying on-the-job drug use as a great concern has risen to an all-time high.

Recommendation: Oregon employers (public and private), under the leadership of the Workdrugfree Employer Task Group, should:

- Mount a statewide campaign to boost the percentage of certified drug-free workplaces from 25 percent in 2006 to 75 percent in 2008. The campaign should include employer-to-employer education and mentoring, technical assistance and training, and a drug-free workplace certification program. It should also engage insurers and legislators in exploring financial incentives that encourage drug-free workplace programs.

- Raise legislators' awareness of the impact of drugs on business competitiveness. Continue to engage them in developing legislation to better align employer responsibility to accommodate medical marijuana cardholders with workforce safety and productivity needs
- Assist Oregon's Workforce Investment Board in establishing a Substance Abuse Prevention Standard for job seekers that meets employer needs. Include a workforce development agency policy statement and supervisor and staff training, and insure improved linkage with substance abuse evaluation services. Evaluate the standard through a demonstration project.
- Assist the State Board of Education in creating a Career-Related Learning Standard to prepare students for employment in a drug-free workplace. Assist education agencies in strengthening school drug policies and administrator training; encourage state agencies to include student workforce preparation in drug prevention initiatives.

Education and Workforce Initiative Leaders

Eileen Drake, PCC Structurals, Inc.
Gretchen Pierce, Hult & Associates
Sam Brooks, S. Brooks & Associates
Elizabeth King, ESCO Corporation
Don Skundrick, LTM Inc.
Howard Sohn, Lone Rock Timber
Ken Thrasher, Complí

Background Resources

Education white papers for past Oregon Leadership Summits, www.OregonBusinessPlan.org

Six education white papers http://www.oregonedroundtable.org/PDF%20Folder/6%20White%20Papers.pdf developed for the Oregon Education Roundtable, www.OregonEdRoundtable.org and www.OregonBusinessPlan.org

The Chalkboard Project (survey findings and publications), www.chalkboardproject.org

Oregon Department of Education http://www.ode.state.or.us

Department of Community Colleges and Workforce Development, http://www.oregon.gov/CCWD

Oregon University System, www.ous.edu

State Board of Education white paper on the need to align curriculum, standards, credits and proficiencies, and assessments, http://www.ode.state.or.us/stateboard/boardwhitepaperfinal.pdf

Oregon Workforce Investment Board Strategic Plan, http://www.oregon.gov/WORKSOURCE/OWIB/docs/OWIB_1006.pdf

6. Health Care

RECOMMENDATIONS

In order to lower health care costs, improve quality, and expand access to care, the Oregon Business Plan recommends the following:

- Use value-based purchasing strategies by employers and public sector purchasers to improve quality and lower costs. Employers should encourage a culture of wellness and personal responsibility, and design benefit plans to improve health, including coverage of preventive services, management of chronic conditions, protection from catastrophic costs, and incentives for wellness. Employers should also create an effective market for health care: consumer choice of health plans, better consumer information, and appropriate consumer cost sharing. Employers should develop expectations and incentives for health plans and providers to encourage higher quality and use of evidence-based care.
- Encourage investment in health care information infrastructure: electronic medical records, secure exchange of health information among providers, standardized measures of quality, and transparent information on costs and quality.
- Expand Medicaid to reduce the number of uninsured and improve access to care. Use additional state revenue to maximize federal matching funds. Increase payments to providers who serve Medicaid patients to improve access to care. In exchange, providers and health plans should reduce the cost shift by lowering charges to privately-insured employers and individuals.
- Increase access to coverage for individuals and small businesses: require individuals to have health insurance, subsidize low-income workers and individuals to enable them to afford coverage, and create an "insurance exchange" to make it easier for individuals and employees of small businesses to purchase insurance.

Vision

We support actions to give all Oregonians access to quality health care. This can best be accomplished by creating a fair market where everybody is motivated to improve health, ensure quality, and control costs. In such a system, individuals, employers, health plans, and providers have incentives to encourage good health, and consumers make informed choices about health practices and treatment options based on understandable health information and transparent prices and quality.

The Problem

The current health care system in the U.S. and Oregon is not delivering value.

- The U.S. spends a much higher share of its GDP on health care than other developed countries.
- Health insurance premiums have been increasing at an unsustainable rate.
- The quality of care in the U.S. is inconsistent

ACCOMPLISHMENTS TO DATE

√ Published a white paper summarizing the problems and root causes of high health care costs and inconsistent quality

√ Developed the business case for a pilot project to enhance the exchange of health information among providers and locations of care.

√ Supported efforts to develop websites to provide comparative information on hospital prices and quality.

√ Collaborated with initiative to develop standardized quality measures for outpatient care.

√ Developed a partnership with the Oregon Coalition of Health Care Purchasers (OCHCP) to educate employers and encourage them to use more effective purchasing strategies for health benefits.

and often below the standards of other developed countries.

- Our health care system leaves many people – nearly one-sixth of the population -- without health insurance coverage.

Why is this important for businesses and all Oregonians? The Oregon business community has identified health care as one of the most serious cost problems it faces. The high cost of health benefits:

- Makes it more expensive for Oregon businesses to compete in a global market
- Reduces funds for business investment
- Dampens economic recovery and job growth
- Reduces funds available for cash compensation to employees

The Oregon business community has identified health care as one of the most serious cost problems it faces.

In addition, the high cost of publicly-financed health care crowds out needed public investment in education and transportation.

Lack of consistently high quality care also is a serious concern. Employee productivity is reduced, and – much more importantly – lives are being lost. The lack of access to coverage for many Oregonians is unacceptable in our society, and the costs for caring for the uninsured are shifted to those who have insurance, putting an additional cost burden on businesses and individuals.

Health Care Task Force

In response to these concerns, the OBC Health Care Task Force was commissioned in the spring of 2004.

The task force had four primary objectives:

- Understand the health care problem in Oregon and the impact on businesses and the community
- Educate businesses and the community regarding the problem and its impact
- Develop a long-term vision and principles to address these problems
- Create a proposal for comprehensive redesign of the health care system.

Challenges

The health care system is badly broken and needs to be redesigned. The problems of cost, quality and access are driven by three closely related factors:

- Fundamental cost drivers
- Lack of effective market forces
- The vicious cycle of costs and access to care

[Note: These factors are described in more detail in the OBC's white paper, "A New Vision for Health Care," December 2004.]

Fundamental Cost Drivers

- *Aging.* The percentage of the population over 65 is increasing steadily.

- *Chronic conditions.* It is estimated that five conditions (heart disease, mental disorders, pulmonary disorders, cancer, and trauma) have driven a large portion of overall cost increases during the past 15 years.
- *Technology.* New advancements in diagnostic and treatment technologies are providing new alternatives, many of which extend life or improve health, but at increased cost.
- *Unhealthy lifestyles.* Poor health choices and the lack of personal accountability for health -- exacerbated by limitations on public health initiatives – contribute to higher costs. For example, the scope and impact of the obesity epidemic are well-documented.

Lack of Effective Market Forces

There are four important levers that have the potential to drive improvements in the value – cost, quality and service – delivered by our health care system:

- Consumer choice
- Price sensitivity
- Information to support informed consumer choice
- Healthy competition between providers

How is this working in the current U.S. health care system?

*Choice***.** The majority of employed Americans do not have a choice of health plans offered by their employers.

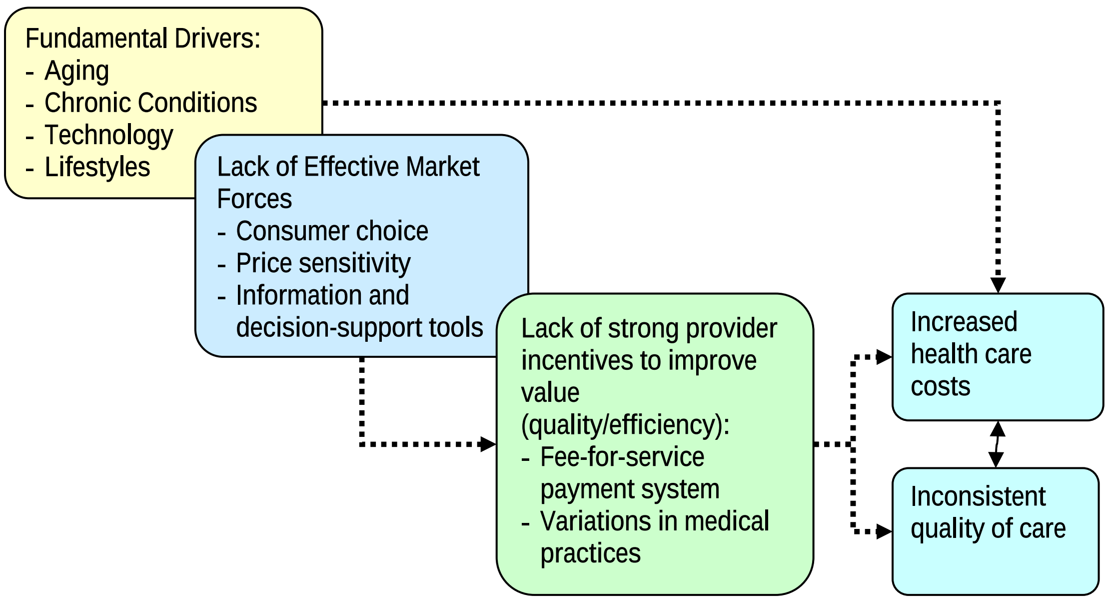
Price sensitivity. Most consumers are shielded from the real costs of health care. In this situation, consumers lack financial incentives to manage their demand for health care services, and they lack strong economic incentives to shop for efficient health care providers. (Although new benefit plans with considerably higher cost sharing – often known as "high deductible health plans" – have been introduced in recent years, they are still a relatively small share of the market.) Furthermore, many employers pay the full premium or a high percentage of the full premium, regardless of the cost. As a result, there is little incentive for employees to choose the most efficient health plan. In addition, many physicians are unaware of the costs of providing services and are not in a position to assist patients in making cost-effective choices.

Information. It is difficult to obtain useful and reliable data to compare the cost and quality of health plans and providers. Consumers are often not in a position to make informed decisions about the diagnosis and treatment of diseases, and must rely on providers to tell them what medication or treatment is needed. Publicly available information on health care costs and quality is gradually reaching consumers, but it is currently inadequate to support informed decision-making by most of them.

Healthy Competition. Given this situation, there is little incentive for health plans or providers to differentiate themselves and compete on cost or quality. Exacerbating this problem is the fact that most providers – especially physicians – are paid on a fee-for-service basis, i.e., a fee for each service delivered. This compounds the effects of the fundamental drivers of demand for medical care. For a physician to be successful financially, s/he is driven to provide a greater number of services. While this may or may not result in improved health outcomes, it can cause more services to be delivered than are necessary. In some cases, over-treatment can also cause poor medical outcomes. (See Figure 1 for a graphic summary of these factors.)

The problems of lack of consumer choice, useful information and healthy competition are

Figure 1.
THE ROOT CAUSES OF HEALTH CARE COST INCREASES



especially acute for employees of small businesses and non-employed individuals. Health plans will usually provide coverage to small groups only on an exclusive basis, thereby eliminating the opportunity for consumers to make choices. The lack of choice also reduces "portability" by making it more difficult for employees to stay with a particular health plan when they move from one job to another. Small businesses seldom have the time or expertise to shop effectively for health insurance, thereby weakening their purchasing power. From the health plans' perspective, small group and individual coverage incurs higher administrative and selling costs, and the claims costs for this segment are subject to higher risk variation. As a result, the rates charged to small groups and individuals are higher and less stable year-to-year, although rate regulations dampen these problems to some degree.

Other Factors

- The medical care delivery system is very fragmented. Most physicians are self-employed in solo practices, and only 25 percent are in practices of eight or more. This is an obstacle to creating more efficient care delivery processes, investing in electronic health information systems, and coordinating care more effectively for patients. It also has contributed to the slow and inconsistent adoption of "evidence-based guidelines" for medical practice, leading to both under- and over-treatment of common conditions. It has also delayed the implementation of initiatives to reduce serious medical errors.

- The U.S. health care system has very complicated administrative processes. As a result, administrative costs are high – 7 percent of total health care expenditures according to government statistics. Some researchers estimate that total system administrative costs – including costs hidden in hospital and physician costs – are much higher (31 percent). Part of this is due to the market fragmentation among providers, health plans, and purchasers. As a result, the system has a high level of duplication and a lack of standardization.

- The lack of a well-developed infrastructure or standards for health care information systems has also been a major obstacle. Health care information exists in a multitude of places in varying formats, some paper, some electronic. This has created inefficiency because information flow between consumers, providers, employers and health plans is not timely. This adds expense due to redundancy and re-work. Furthermore, the delays in the availability of health information can lead to compromised safety and quality.

The Vicious Cycle of Costs and Access

There is a complex but powerful relationship between rising costs and deteriorating access to care.

There is a complex but powerful relationship between rising costs and deteriorating access to care.

- The most basic dynamic starts with cost increases that drive higher health insurance rates. As a result, many employers are reducing coverage, especially for dependents, or are dropping employee health benefits altogether. Similarly, increasing health care costs have forced the state to reduce the number of people in the Medicaid program (Oregon Health Plan). These actions by employers and state government have increased the number of uninsured, for whom it is much more difficult to get access to care.

- The increase in the number of uninsured and the resulting access problems results in delayed treatment and inappropriate use of hospital emergency departments for non-emergency care. This further increases costs, creating a vicious cycle by increasing insurance rates and putting additional pressure on employers and the state to reduce coverage.

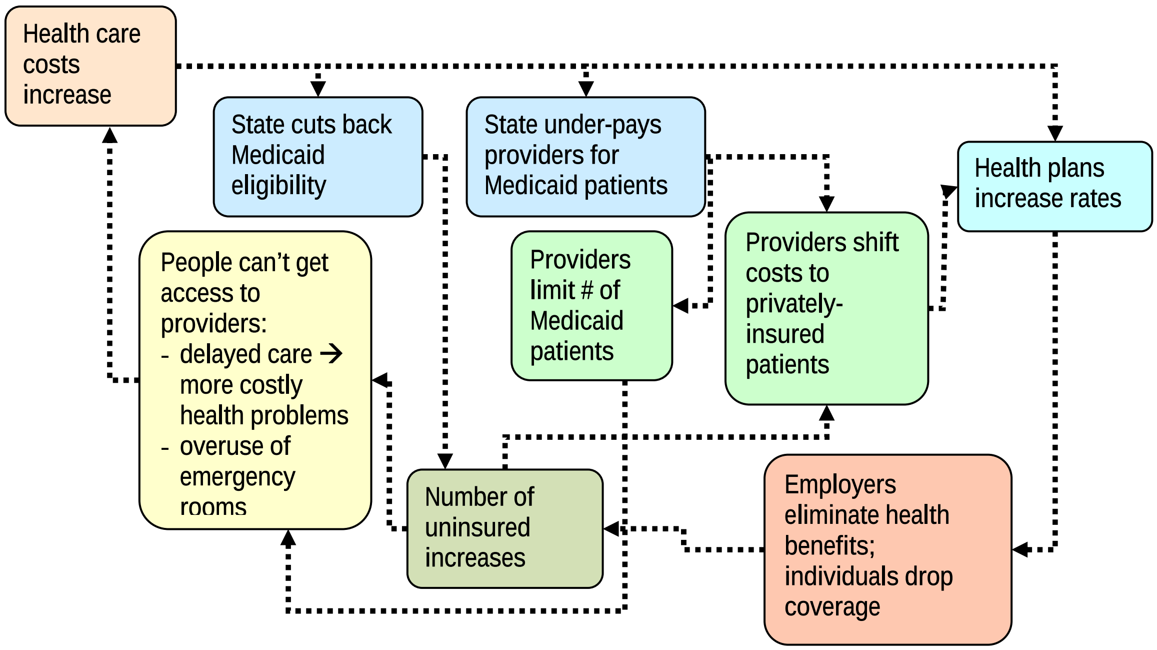
- The increasing number of uninsured non-paying patients in hospital emergency departments also forces hospitals to charge higher rates for insured patients. This cost shift results in higher insurance rates, creating another vicious cycle by forcing employers to reduce coverage, thereby increasing the number of uninsured.

- Higher costs have also forced the state and federal governments to under-pay for care provided to Medicare and Medicaid patients. This has led many providers to set caps on the number of Medicare/Medicaid patients they will see, thereby exacerbating the access problem. This also contributes to the cost shift, as providers increase charges for insured patients to offset the low payments for Medicare and Medicaid patients.

As a result, employers and individuals with health insurance carry an additional burden. In addition to higher insurance rates caused by the fundamental cost drivers described earlier, the rates are increased further due to the cost shift. The magnitude of the cost shift is estimated to be 10 to 15 percent in addition to basic health insurance rates. (See Figure 2 for a graphic summary of these factors.)

Figure 2

THE VICIOUS CYCLE OF HEALTH CARE COSTS AND ACCESS



The linkage between costs and access is further complicated by the complex health care financing system in the United States. There are three primary ways in which health benefits are financed:

- *The employer-based system, which covers 52 percent of the total population in Oregon.* Employees and their dependents receive benefits that are largely paid by employers. The benefits are determined by the employer or through collective bargaining. The value of the health benefits is exempt from personal income taxes. (Individuals who purchase health insurance directly account for an additional 6 percent of the population.)
- *Medicaid, which covers 12 percent of Oregonians.* Low-income people in certain eligibility categories receive benefits. The eligibility rules and benefits are set by the federal government, with some flexibility at the state level.
- *Medicare, which covers 13 percent of Oregonians.* Elderly and disabled people are eligible to receive benefits. The benefits are established and administered by the federal government.

Each of these major categories has different funding mechanisms, eligibility requirements, benefit designs and administrative jurisdiction. As a result, many people fall between the cracks of these categories. For example, many part-time or seasonal employees, dependents, and employees of small businesses do not have benefits. Many low-income people are not eligible for Medicaid because they do not fit into one of the aid categories, but they are unable to afford health coverage. By limiting eligibility to the very poorest, we effectively discourage work.

Agenda for 2007 and Beyond

The OBC Health Care Task Force has developed a set of recommendations to address the problems with the current health care system. The proposals are built upon an understanding of the root causes and a set of core principles:

Principles

1. There are three essential issues to address: cost, quality and access. Many reform proposals focus only on access. We believe this is insufficient. Any proposal that does not address the system changes needed to reduce costs will be unaffordable. We are committed to finding solutions that are economically sustainable.

2. The health care system is badly broken and needs fundamental change. Fixing the problems of high costs, inconsistent quality, and poor access will take sustained and focused effort over many years. Ultimately, the system of <u>delivering</u> health care services requires major restructuring. Some improvements can be driven by changes in health care financing and purchasing, but those changes alone will not be sufficient to improve the cost and quality of health care services.

3. This is a systemic problem that requires collaborative problem-solving. It's easy to look for and blame villains, but that won't fix the problem. All of the key stakeholders – consumers, employers, providers, health plans and government – are part of the systemic problem, so we all must step up to be part of the solution. The business leaders working on this initiative are committed to collaborating with key stakeholders and policy-makers to achieve reform.

All of the key stakeholders – consumers, employers, providers, health plans and government – are part of the systemic problem, so we all must step up to be part of the solution.

4. All stakeholders must accept their responsibilities for improving the system. Consumers have a responsibility to keep themselves healthy and be well-informed purchasers. Providers have a responsibility to help keep their patients healthy and to offer evidence-based, cost-effective care to all who need it – including publicly-subsidized as well as privately-insured patients. Employers have a responsibility to offer health benefits to their employees and dependents, if they can afford it, and help keep their employees healthy and productive. Health plans have a responsibility to offer coverage to all who need it and work with providers to reduce costs and improve health outcomes. The government has a responsibility to ensure access to coverage and care to all who need it and use value-based purchasing strategies to encourage efficiency and quality.

5. We believe that a system that is built on the private health care delivery system and uses market forces is most likely to achieve the goals of cost control and quality. While there is an appropriate role for government as a facilitator, regulator and purchaser/sponsor for low income and elderly persons, we believe that the private delivery system – with the right incentives for providers – is the best way to improve quality and cost effectiveness**.** Consumer engagement and personal accountability are critical. Consumers must have real choices, an appropriate level of price sensitivity, and access to information and decision support tools.

6. We need practical solutions that can be implemented. Although it is necessary to have a long-term vision for a redesigned health care system, it isn't fruitful to imagine an ideal future system that is impossible to achieve. We must find pragmatic approaches that build a bridge from the existing health care system to a future system that delivers value and provides access to evidence-based care. We recognize that investments in basic infrastructure, e.g., development and publication of standardized quality data, electronic health records, and the exchange of health information among providers, etc., are needed to support a new health care system.

7. Business leadership is needed to drive improvements in the health care system. As the primary purchaser of health benefits, employers – on behalf of their employees –have a major stake in ensuring that the money spent is producing value. Building on the employer-based system makes sense; it already covers the majority of Oregonians reasonably well. In addition, this will help to ensure that employers continue to have a stake in keeping employees healthy and productive. Building on the employer-based system also allows employers to customize their health benefit programs to meet their employees' needs.

A Responsible Plan for Sustainable Reform

The following are the key elements of a comprehensive redesign of the health care system in Oregon. We have focused on state-level initiatives at this time, recognizing that even greater improvements could be made with reform at the national level. The first two elements focus on actions by purchasers – working with health plans and providers – to improve the quality and lower the costs of the health care system. The remaining four elements address the vicious cycle of costs and access to care.

Improve Quality and Lower Costs Through Purchaser Action

Use value-based purchasing by employers and public sector purchasers. Private and public sector employers can play a major role in driving improved quality and lower costs. There are several general principles and approaches that purchasers should use:

Private and public sector employers can play a major role in driving improved quality and lower costs.

- Encourage a culture of wellness and personal responsibility in the workplace.
- Offer benefits that are designed to improve health; coverage should include:
  - Preventive services
  - Management of chronic conditions
  - Protection from catastrophic costs
  - Incentives for wellness
- Create an effective market for health care:
  - Offer employees a choice of health plans and providers

- o Engage employees in their health care decision making by using a defined contribution approach to fund employees' health benefits and requiring cost sharing at the time of service – while avoiding financial barriers to preventive services or chronic care management Provide employees with decision support tools, including understandable cost and quality data, to support their ability to make informed choices of health plans, providers, and alternative treatments and services.

- Contract more effectively with health plans, using standardized RFI tools and setting expectations for health plans and providers to improve transparency, cost-effectiveness, quality of care, and use of evidence-based care.

In addition, public sector programs such as Medicaid must operate as efficiently as possible to ensure that beneficiaries and taxpayers are getting the best value for the money. The Medicaid program should be allowed to use the same tools (e.g., use of a preferred drug list, integration of mental and physical health programs) that businesses use in managing their health benefit programs. With these tools, any expansion of the Medicaid program would be more cost-effective.

Invest in information infrastructure development. Private and public sector purchasers should work with health plans and providers to stimulate the development of health care information infrastructure, including:

- Electronic Health Records should be adopted by all health care providers.
- Providers should have access to necessary patient health information through secure data exchange mechanisms in order to provide continuity of care.
- Data transparency is needed to allow purchasers and consumers to be more informed buyers.
- Standardized and easily understood measures of quality are needed to enable purchasers and consumers to compare the performance of providers.

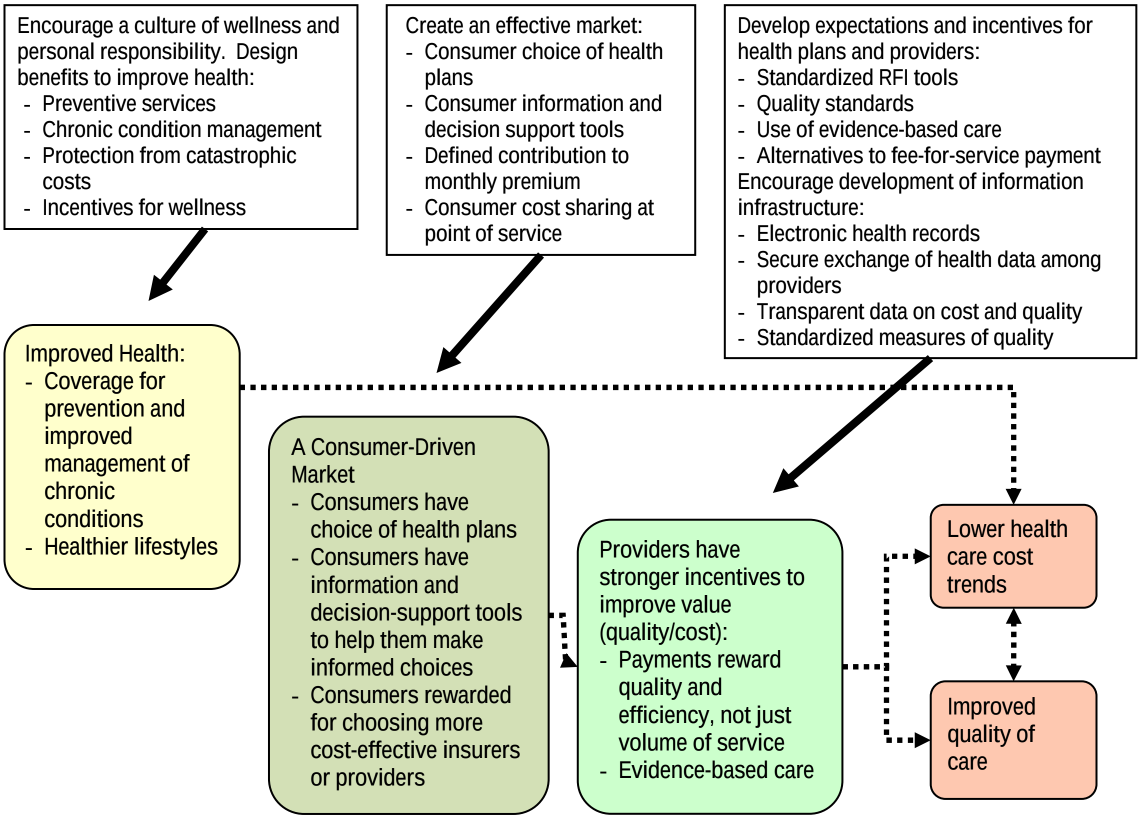
(See figure 3 for a graphic summary.)

Break the Vicious Cycle of Costs and Access.

Reduce the number of uninsured by expanding Medicaid. Use additional state revenue to maximize Federal matching funds that are currently available to the state. Increasing state funding by $700 million would generate over $1 billion in additional federal funds annually.

Improve access to care by increasing payments to providers who serve Medicaid patients. Use a portion of the additional Medicaid funds to reduce the gap between provider payments for publicly- and privately-insured services.

Figure 3
USING VALUE-BASED PURCHASING TO IMPROVE VALUE: QUALITY/COST

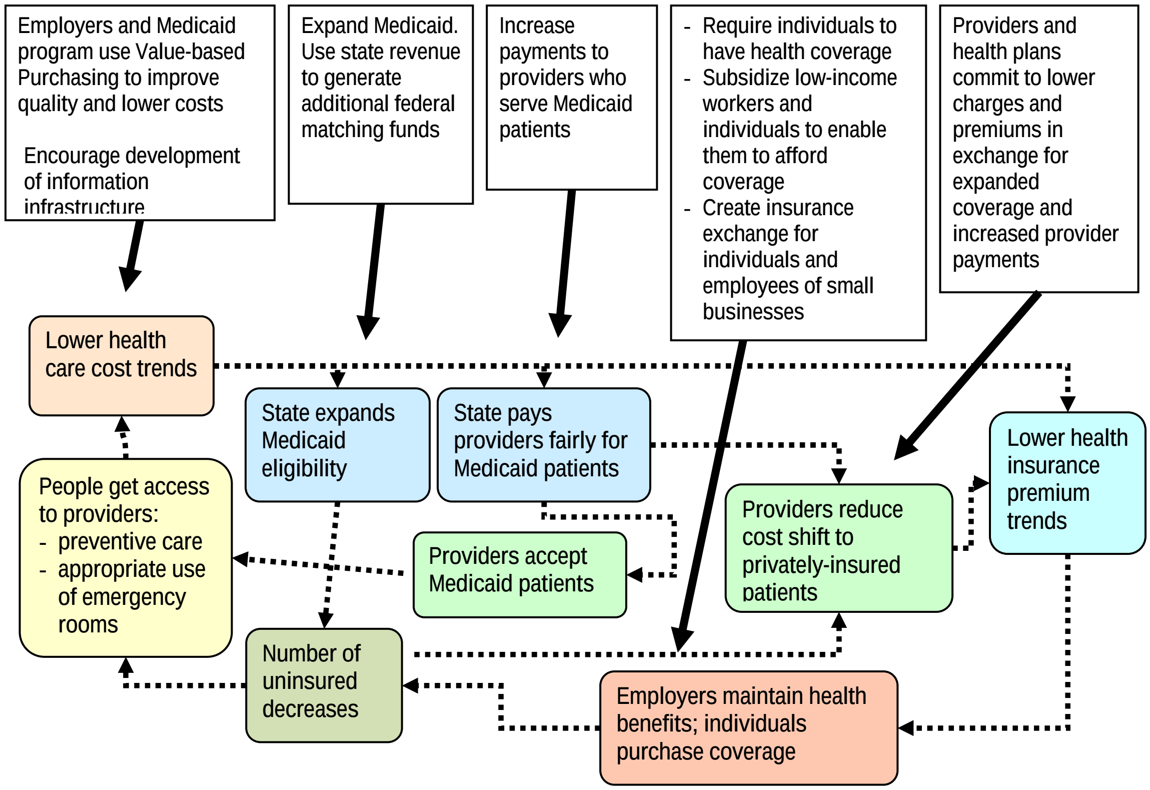


Increase access to coverage for individuals and small businesses. This is needed to address the special problems that individuals and small businesses face in obtaining coverage. For many, coverage is unaffordable. Some individuals who can afford coverage, however, choose to forego insurance. When they become seriously sick or injured, they rely on hospitals which are required to serve everyone regardless of coverage. The health care costs for these "free riders" are borne by those who have insurance, via the cost shift described above. Three specific steps are needed:

- Require individuals to have health insurance.
- Subsidize low-income workers and individuals to enable them to afford coverage.
- Create an "insurance exchange" for individuals and employees of small businesses

Reduce the cost shift to employers and individuals. In return for expanded coverage and increased provider payments, health plans and providers should reduce the cost shift by lowering charges to privately-insured employers and individuals. (See Figure 4 for a graphic summary of these recommendations.)

Figure 4
BREAKING THE VICIOUS CYCLE



Short-term Initiatives (2007-08)

Focus on Improving Quality and Reducing Costs

1. Use Value-based Purchasing by employers to improve quality and lower costs.
2. Support legislation that allows the Oregon Health Plan to implement purchasing strategies used by private employers, e.g., use of a preferred drug list, integration of mental and physical health programs
3. Continue efforts to improve health care information infrastructure: electronic health records, secure exchange of health data among providers, transparent information on costs and quality, and standardized quality measures
4. Support Medicare initiatives for improved transparency, quality improvement and pay for performance

Improve Access and Reduce the Cost Shift

5. Support the cigarette tax to fund comprehensive and affordable health coverage for children – the Healthy Kids Plan
6. Support the use of state revenue to gain federal matching funds and expand the Oregon Health Plan
7. Support efforts to increase provider payments for Oregon Health Plan patients and reduce the cost shift to privately-insured patients

8. Oppose efforts by Medicare to further reduce payment rates to providers, or other steps that would exacerbate the cost shift to privately-insured patients
9. Create a forum and collaborate with other organizations to develop a plan for comprehensive redesign of the health care system to provide all Oregonians with access to high quality and affordable care.

Measuring our Progress

We will measure our progress against the following goals [specific targets to be developed]:

Health and Wellness of Employees. Employers incorporate the value of employee health and wellness in the culture of their organizations and their decision making processes.

Outcomes:

- Employers use health risk assessments to develop wellness and prevention programs with incentives to engage employees and to take personal responsibility
- Employees and their families do not have financial barriers to needed preventive and chronic care
- Employers offer evidence-based disease management programs
- Overall health status of employees and dependents improves.

Access. Provide access to care for all Oregonians.

Outcomes:

- Reduce the number of uninsured in Oregon..
- Increase the number of providers willing to care for Medicaid and Medicare patients..

Create appropriate incentives to drive efficiency in health care. Structure the health care market to offer informed consumer choice and encourage healthy competition among providers.

Outcomes:

- All consumers have a choice of health plans
- Information regarding cost, quality and service is easily accessible for consumers and group purchasers to make informed choices between health plans and providers.
- Consumers have the appropriate degree of cost sharing, without creating barriers to needed care
- Providers have the appropriate financial incentives to provide high quality and cost effective services.

Costs. Create a health care system that is affordable and economically sustainable.

Outcomes:

- Reduce the annual increase in overall health care costs,
- Reduce the annual increase in health insurance premiums.

Quality. Improve the quality of health care services.

Outcomes:

- Patient health information is available to providers across systems.

- Employees with chronic conditions are well managed.
- Employers measure health care quality through standard metrics.
- Evidence-based guidelines are used by clinicians.

If we are able to achieve these outcomes, Oregon businesses will have a competitive advantage, thereby increasing economic growth and jobs. The people of Oregon will be healthier and lead more productive and rewarding lives. And Oregon can strengthen its reputation as an innovative leader in social and economic policies.

Health Care Initiative Leaders

Peggy Fowler, President & CEO, Portland General Electric
Mark B. Ganz, President & CEO, The Regence Group.

Background Resources

OBC white paper, "A New Vision for Health Care," December 2004.

7. Transportation

RECOMMENDATIONS

Oregon must promote creation and retention of jobs by expanding the market reach and productivity of Oregon businesses through strategic, trade-related investments in all modes of transportation infrastructure. In support of this objective:

The Oregon Business community should:

- Form a statewide business leadership coalition to evaluate and communicate the importance of transportation investments to Oregon's economy through a statewide expansion of the Portland area Cost of Congestion study.
- Work with the Oregon Transportation Commission, the Oregon Legislature and the Governor's Office to identify and support enactment of long-term, sustainable funding options for safety, capacity, maintenance and preservation of Oregon's system of transportation infrastructure during the 2009 legislative session.
- Work with Oregon's Congressional delegation to support strategic and sustained federal investments in transportation infrastructure in Oregon.

The 2007 Legislature should:

- Adopt an annual transportation-funding package of $300 -350 million that includes an economic filter to evaluate return on investment, targets funding for critical transportation projects that deliver a statewide economic benefit such as the Columbia River Crossing, addresses priority safety and capacity needs, and protects the multi-billion dollar surface transportation system asset.
- Continue investments in multi-modal transportation and state, national and international connectivity by adopting Connect Oregon II.

Congress should:

- Re-authorize the timber safety net or help counties find ways to make up for lost revenue.
- Stabilize the Federal Highway Trust Fund to ensure financial support and national interests are reflected.

Background, Challenges and Opportunities

Oregon's transportation system has seen major improvements since the Business Plan was launched in 2002.

Oregon is now connected to markets in Asia, Europe and Mexico through expanded international air service. Significant progress has been made on the Columbia Channel Deepening, and Oregon has benefited from increased state and federal investments in highways and other critical infrastructure projects. In 2005 the Legislature adopted "Connect Oregon," the Governor's $100 million multi-modal transportation proposal for transit and non-highway freight projects.

ACCOMPLISHMENTS TO DATE

√ Secured International Air Service to Mexico, Asia, and Europe

√ Increased State Highway Funding through the OTIA I, II and III packages

√ Increased Federal Highway Funding through the 2005 Transportation Reauthorization bill; SAFETEALU

√ Secured Federal Funding for Critical Projects, such as Columbia River Crossing EIS, and statewide bridges

√ Began deepening the Columbia River channel

√ Launched Mileage Fee Pilot, a funding option test program

√ Passed $100M Connect Oregon for non-highway freight and transit infrastructure

These accomplishments will improve the flow of commerce in Oregon and translate into new family wage jobs and dollars for Oregon's economy. The Legislature, Governor and participating agencies should be commended for this work to enhance Oregon's transportation infrastructure.

Despite these accomplishments, our transportation systems face serious challenges that threaten the ability of Oregon businesses to compete both locally and globally. Our transportation system is hampered by inefficiencies, rapid population growth and increasing demand from all users are placing increased stress on system capacity, and we can't be certain that current revenue sources, in particular fuel taxes, will remain viable.

Despite recent accomplishments, our transportation systems face serious challenges that threaten the ability of Oregon businesses to compete both locally and globally.

In September of 2006 the Oregon Transportation Commission adopted the Oregon Transportation Plan (OTP), the state's 25-year multimodal transportation plan for Oregon's airports, highways and roadways, bicycle and pedestrian facilities, pipelines, ports and waterway facilities, public transit, and railroads. The Oregon Business Plan strongly supports this long-range vision for Oregon's transportation infrastructure.

Key findings from the OTP underscore the importance of continued investment in Oregon's transportation system:

- By 2030, freight is expected to increase 80 percent statewide and double in the Portland metropolitan region (most of the increase carried by trucks)
- Oregon's population will grow by 41 percent, increasing demand for transportation, as well as wear and tear on the existing infrastructure.
- By 2030, fuel taxes, the traditional means of funding highways, will lose 40 percent of their purchasing power.
- Increasing congestion will undermine the state's economic competitiveness, lengthening the delivery time for goods and services, shrinking market access and reducing business productivity. Accidents, stalled vehicles, weather, work zones and other incidents cause about fifty percent of traffic delay.

The Cost of Congestion report, released by a consortium of public and private interests, found that the Portland region is uniquely trade dependent, largely due to the convergence of multi-modal infrastructure that makes the region a transportation gateway and domestic trade hub. The study shows that failure to invest adequately in transportation improvements in the Portland region will result in a potential loss value of $844 million annually by 2025 ($782 per household) and 6, 500 jobs. The study also showed that additional regional investment in transportation would generate a benefit of at least $2 for each dollar spent.

These impacts are not confined to the Portland metro area. Congestion and other transportation inefficiencies cost Oregon's economy billions of dollars annually across the state. One of the recommendations included in this report is to extend the congestion study statewide.

However, while growing transportation demand presents significant challenges for Oregon's economy, if we act now we will be well positioned to turn these challenges into opportunities to grow and strengthen our economy.

The Department of Transportation, in consultation with businesses, public agencies, and its own commission, recently issued *Critical Conversations: A review of investment opportunities for transportation in Oregon.* This report provides a starting point for making critical decisions about which investments Oregon should pursue in order to increase capacity, take care of the system we have, make the current system work better, and improve safety.

Agenda for 2007 and Beyond

The business community should:

- **Form a statewide business leadership coalition to evaluate and communicate the importance of transportation investments to Oregon's economy** through a statewide expansion of the Portland area Cost of Congestion study. The congestion analysis must be expanded in order to truly assess the impact on business statewide and communicate the implications of congestion and transportation bottlenecks on Oregon's economic future.
- **Work with the Oregon Transportation Commission, the Legislature and the Governor's Office to identify and support enactment of long-term, sustainable funding options** in the 2009 legislative session to improve safety, capacity, maintenance, and preservation of Oregon's transportation infrastructure. The purchasing power of the gas tax is rapidly declining with inflation, increased fuel efficiency, and the rising cost of improvements. Changes to that funding source must be considered carefully in light of growing demands on the transportation system and its critical importance to business competitiveness and job creation. Ideas such as indexing as well as mileage and congestion pricing have been discussed in the Oregon Business Plan. In addition, pilot projects for alternative funding mechanisms have been implemented by the Department of Transportation. It is time to develop sustainable ways to fund capacity and system improvements. Other states and nations have developed innovative funding solutions and many groups within Oregon have analyzed the revenue implications of indexing and other options. The business community should examine the options and work with the Oregon Transportation Commission to secure authority for alternative funding beginning in the 2009 legislature.

Changes to that funding source [gas tax] must be considered carefully in light of growing demands on the transportation system and its critical importance to business competitiveness and job creation.

The 2007 legislature should:

- **Adopt a biennial transportation-funding package of $300 to $350 million that includes utilization of an economic filter to evaluate return on investment,** that targets funding for critical transportation projects that deliver a statewide economic benefit such as the Columbia River Crossing, that addresses immediate safety and capacity needs, and that protects the multi-billion dollar surface transportation system asset. Failure to meet these needs is putting our businesses and economy at risk. Currently, business productivity is negatively impacted by the increased time and effort it takes for products to reach market and for employees to get to work. It also drains resources to alter business operations to compensate for increases in congestion. Other states face this same phenomena and are making substantial investments in their transportation infrastructure. Washington State successfully passed a transportation funding package through an increased state gas tax that will produce approximately $9 billion. California recently passed a measure that will raise approximately $20 billion for transportation improvements. It is critical that Oregon act now to keep pace with increasing transportation demand and investments being made by other states. Funding sources that may be considered include a gas tax increase (one cent raises $25 million annually), a higher vehicle registration fee ($1 dollar raises $2.5 million annually), and a titling fee on the transfer of car title ($1 dollar raises $1.5 million annually). Because of the dire need for transportation investment in order for Oregon to be economically competitive, the business community is willing to be an active leader in developing and supporting a workable funding package
- **Continue investments in multi-modal transportation and state, national and international connectivity by adopting Connect Oregon II.** The 2005 Connect Oregon legislation initiated a program of strategic investment in air, marine, public transportation, and rail assets. These links vital to moving people and goods have been underfunded and ineligible for traditional transportation system funds, yet they are key to keeping Oregon connected and competitive. The 2005 program demonstrated the breadth of investment opportunities. The 2007 Legislature should enact a similar proposal for non-highway improvements to retain and create jobs within Oregon's economy. This investment should be coupled with a targeted highway program (as suggested above) to ensure connections between modes.

Congress should:

- **Re-authorize the timber safety net or help counties find ways to make up for lost revenue.** Congress has not yet re-authorized the "Secure Rural Schools and Community Self-Determination Act" (PL 106-393). If the act is not re-authorized when Congress reconvenes in January, counties in Oregon stand to lose millions of dollars in revenue. This issue extends far beyond transportation, but for many counties, maintenance of roads and bridges will take a big hit with this loss. This is an issue that everyone in the state must work to address, otherwise the effects will be felt throughout Oregon's economy.
- **Stabilize the Federal Highway Trust Fund to ensure that financial support.** Congress should take action in the next two years to resolve both our short- and long-

term funding problems. A revenue boost equivalent to a 3- to 4-cent gas tax increase would allow Congress to meet SAFETEA-LU's funding commitments in 2009 and provide for continued growth in highway spending in the next reauthorization.

Transportation Initiative Leaders

Steve Clark, Community Newspapers
Michael R. Nelson, Nelson Real Estate
Randy Papé, The Papé Group
Tom Zelenka, Schnitzer Steel Industries

Background Resources

"Oregon's Transportation System: Critical Needs" Oregon Department of Transportation (December 2006)
Oregon Transportation Plan
Oregon County Roads Needs Report (November 2006)
"Strengthening Our Investment in Roads and Bridges" (PDF) -- Oregon Business Plan White Paper (January 2003)
Oregon Department of Transportation (www.Oregon.gov/odot)

- Oregon Transportation Investment Act (OTIA)
- Oregon Dept. of Transportation Innovative Partnerships Program
- Oregon Rail Plan
- I-5 Rail Capacity Study

Columbia River Channel Coalition (www.channeldeepening.com)
Oregon Department of Aviation (www.aviation.state.or.us)

- Oregon Aviation Plan

Port of Portland

- "Freight Rail and the Oregon Economy"
- "Marine Terminals Master Plan"
- "Cost of Congestion to the Economy of the Portland Region"

American Assn. of State Highway Transportation Officials Freight Transportation Network (freight.transportation.org)

- "Freight Rail Bottom Line Report"
- "Freight Capacity for the 21st Century"

8. Initiative Status

The Oregon Business Plan began four years ago with 12 specific initiatives to advance the vision of job-rich traded sector clusters made more competitive by the state's strengths in pioneering innovation, people, place, and productivity. For every initiative, we recommended specific actions and we created an initiative tracker at the Business Plan website to monitor progress on action items. In each case, initiative leaders from the business community have taken responsibility for their initiative, generally working with public sector partners who have many of the implementation tools (know-how, authorization, budget, staff resources) to deliver results. This focus on action and results has become a hallmark of the Oregon Business Plan.

In the Leadership Summit's one-day program, 12 initiatives have proved difficult to manage, so the Steering Committee has scaled the focus this year to five high-priority initiatives that represent a pressing need for long-term systemic change. Initiatives here for education and health care (our newest initiative) have particular urgency. Some of the action items to accomplish such change – a new education budgeting system and system-wide overhaul of electronic medical records – are themselves major institutional undertakings. Each, however, is critical to accomplish larger system improvement.

Some of our earlier initiatives, which had a narrower scope, have been largely accomplished. These include refocusing the state's economic development efforts, securing air service to Asia and Europe, and streamlining regulation. Despite these successes, follow-up continues in these areas. For example, the Business Plan is partnering with the Oregon Economic and Community Development Department to keep developing Oregon's traded sector cluster network.

Initiative Update

Here is an update on some earlier initiatives and action items. More details can be found at the Oregon Business Plan website, www.OregonBusinessPlan.org.

Make Land Available for Traded Sector Development *(Initiative Leaders Steve Clark and Margaret Kirkpatrick)*

Summary of Accomplishments. Since the Oregon Business Plan began, Oregon has established build-ready industrial sites for those wishing to locate and expand in Oregon. Through *www.OregonProspector.com* businesses can search for build-ready sites throughout Oregon. State and local economic development officials are pressing ahead to develop new sites.

The Work Ahead. The "Big Look" task force created by the 2005 Legislature is reviewing Oregon's land-use system, now three decades old. As the task force deliberates, it must take a systematic look at the land needs of traded sector industries and businesses. To achieve our goals for sustainability, the task force should be considering policies that makes land available for traded sector growth while achieving other environmental and community goals.

Simplify and Streamline Regulation and Permitting *(Initiative Leaders Eric Blackledge and Judy Peppler)*

Summary of Accomplishments. Since 2003, Oregon has come a long way in making it easier to do business by simplifying and streamlining regulation and permitting. A culture of continuous improvement in regulatory systems is being established throughout state government. The state has launched over 300 streamlining projects, ranging from elimination of redundant business examinations to increased online payment options – all making it easier to conduct business. This includes an online "one-stop" database for licenses and permits at www.oregon.gov/lic. The 2005 Legislature passed 29 bills to make it easier to do business in Oregon.

The Work Ahead. In light of our focus on sustainable development, this is an ideal time to take a fresh look at regulation and permitting systems with an eye to improving environmental and business performance. A task force of business and agency staff should be created to examine best-practices globally and to advance new ideas for Oregon.

Enhance Oregon's Forest Resources Benefits *(Initiative Leaders Allyn Ford and Howard Sohn)*

Summary of Accomplishments. Much of Oregon's landscape is forested, and the way we manage our forests matters to Oregon's economic, community, and environmental health. In 2002 the Business Plan introduced a new vision for how to manage Oregon forests. The most notable outcome of this framework, thanks to our congressional delegation, has been the Healthy Forest Restoration Act of 2003. Among other things, this legislation authorizes resources for fuel reduction and thinning projects on federal forestlands at high fire risk. It limits appeals and judicial injunctions and requires judges to balance short-term harm with long-term benefits. The bill is expected to create jobs in rural Oregon while protecting communities from catastrophic fires.

The Work Ahead. There is much ongoing work to improve forest management in Oregon. Perhaps the most promising is the "woody biomass" initiative presented at last year's Summit. A perfect illustration of sustainable development, the initiative proposes to thin forests with the aim of reducing the risk of catastrophic, environmentally disastrous fires while providing wood for lumber and electricity. This initiative has great potential to improve the economies of rural communities. To achieve results, federal forest managers must assure stable supply, and utilities must agree to long-term contracts to purchase electricity generated from the wood-waste.

Brand and Market Oregon More Aggressively *(Initiative Leader Randy Miller)*

Summary of Accomplishments. On a very small budget, Brand Oregon has made notable progress over the past four years in developing Oregon's brand image, marketing agricultural products and developing a business recruiting campaign. Lack of funding has stymied the effort. Fortunately, the Governor's budget for 2007-09 recommends renewed funding for this program.

The Work Ahead. The focus on sustainable development needs to be woven into the Brand Oregon campaign. The themes are already in place. The Brand Oregon staff and its advisory committee will need to take a fresh look at the campaign.

As suggested earlier, three new topics have emerged from our focus on sustainability: energy policy, water policy and waste-water treatment systems. The Business Plan Steering Committee will explore each this year.

What's Next

Finally, the Business Plan process includes a standing invitation for proposals on new initiatives that support the vision and strategy of the Oregon Business Plan. This year we received three:

- The organization Northwest Business for Culture & the Arts advocates that the Business Plan support a Creative Art Initiative, a partnership between the Oregon Art Commission and the Oregon Economic and Community Development Department.
- The Oregon Telecommunications Coordinating Council has offered a comprehensive proposal, "Building the Internet Forest," which recommends strengthening broadband capacity in Oregon.
- Mr. David Porter presented a proposal to expand the percentage of Oregonians fluent in Mandarin Chinese, with the aim of connecting our community more closely with the growing Chinese economy.

The Business Plan Steering Committee reviewed all three proposals and find merit in each. However, taking Michael Porter’s admonition about staying focused, the committee decided to keep working on the current list now, while exploring each of the new proposals in more detail during 2007. We are pleased advocates for the arts will have the opportunity to present – rather *perform* – their case at the Leadership Summit this year. We will meet with the other advocacy teams in the first quarter of 2007 to explore their ideas and give further attention to their recommendations.

The Oregon Business Plan Is Grateful to the Following Sponsors