POLICY PLAYBOOK
AND INITIATIVE GUIDE

MOVING FORWARD

6TH ANNUAL LEADERSHIP SUMMIT

DECEMBER 3, 2007

Oregon Business Plan.org

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INTRODUCTION

This year's *Policy Playbook* describes the Oregon Business Plan's broad agenda and specific initiatives for 2008. It's a companion resource for the December 3, 2007, Leadership Summit and for the work of Business Plan participants in the coming year.

The broad agenda, outlined in the next section, maintains the Business Plan's focus on building out Oregon's traded-sector industry clusters and pursuing policy initiatives that enhance the conditions for business success – ranging from product innovation to well educated people to efficient transportation infrastructure. But it also discusses our new effort, beginning this year, to make sustainability – especially Oregon's lead in green products, services, public policies, and expertise – a distinct competitive advantage. With this effort, the Business Plan is advancing into new terrain; hence the theme *Moving Forward*, which also reflects this Summit's focus on a state transportation system in need of attention.

In his appraisal of the Business Plan two years ago, Professor Michael Porter applauded our work with clusters and policy initiatives but noted that Oregon had yet to infuse its economic development strategy with a distinguishing, overarching competitive proposition. He suggested sustainability – where Oregon already has an international reputation – as a distinct competitive advantage to build on. The next section describes how all the partners in the Business Plan – leaders in business, government, and foundations – are making sustainability a constant in cluster development and public policy formation.

In this regard, the Business Plan owes special thanks to the Meyer Memorial Trust, which provided grant funding for our work in 2007 to weave sustainability into the Business Plan. This included focus group research with business and public leaders, interviews with policy analysts, and an inventory of Oregon's efforts, resources, and capacity in sustainability.

The Business Plan also thanks the Oregon Economic and Community Development Department for a grant supporting work on industry cluster development, in particular an effort to ascertain the current priorities and activities of our clusters, and their perceptions of Business Plan initiatives. That feedback is described in the companion document, *Cluster Resource Guide*. OECDD, it should be noted, has become a leading supporter of cluster development in Oregon – and a key partner in the Oregon Business Plan.

One additional note: This year's Policy Playbook reflects typography, colors, and other visual treatments developed by OECDD for Brand Oregon, which was one of the Oregon Business Plan's first 12 initiatives in 2002. Guided by an advisory board and managed by State Government, Brand Oregon was created to apply unified branding practices to products, people, and places that represent Oregon in the public mind. It has been instrumental in particular in building brand equity for Oregon's agricultural products and assets in tourism. Now it will have an additional challenge raising awareness of Oregon's leadership in sustainability as a distinct aspect of the Oregon brand.

1. MOVING FORWARD INTO 2008

In keeping with the theme of this year's Leadership Summit, the Oregon Business Plan is *moving forward* on a number of fronts. As envisioned in our first summit five years ago, our industries are making great progress in organizing as competitive clusters, and the business and public sector leaders involved in the Business Plan continue to gain traction on important policy initiatives. The past three legislative sessions have adopted many Business Plan recommendations, and 2007 was especially productive. The Governor and Legislature made a series of targeted investments to expand access and improve quality all along the education continuum, including Head Start, the Oregon Opportunity Fund, and engineering. The Legislature created a new reserve fund to protect Oregon public services during the next economic downturn. It adopted a promising framework to reduce costs and increase access to health care. And it expanded Connect Oregon to address critical freight-related transportation improvements.

The Business Plan is evolving to reflect and focus Oregon's emerging competitive advantage in green products and services, business process, public policy, and expertise.

This summit sets up our work in 2008, further building out our clusters and preparing policy initiatives for the 2009 Legislature. Given a healthy economy (see adjacent snapshot), strong state revenues, and a sense of momentum from the last session, Oregon itself is moving forward with confidence and purpose. We have greater freedom to take actions and make investments that will strengthen our economic competitiveness over the decades ahead.

OREGON'S ECONOMY – A SNAPSHOT

- Statewide employment has reached a new peak of 1.73 million. After top ten growth in the two previous years, it has settled down to the national average (about 1.3 percent) in 2007.
- Oregon's unemployment is tenth in the nation, 5.4 percent, versus the national average of 4.6 percent. It has been pushed up in part by strong in-migration of people without jobs.
- Between 2005 and 2006, Oregon had the nation's ninth fastest rate of net domestic in-migration, at 1.2 percent, more than 41,000 new residents yearly.
- Per capita income, a key benchmark of economic health, grew to a new high of $33,252 in 2006, but still 9 percent below the national average and 27th among the states.
- Oregon exports, a marker for traded-sector health, reached a new high in 2007, running at a $16 billion annual rate through Q2 2007, up 8.7 percent over the year before.
- From 2003 to 2006, Oregon's net rate of new business formations rose to 8.9 percent, seventh fastest in the nation.
- The state economic forecast predicts that Oregon will outperform the nation for the next five years.

The Green Advantage

This summit also marks a significant refinement in the framework of the Oregon Business Plan. This year we are incorporating into the Plan what we believe can become Oregon's distinct competitive advantage: its leadership in environmentally conscious products and services, business process, public policy, and expertise.

Nurturing and extending this green lead could be thought of as Business Plan 2.0, and that would be a fair distinction. But this is not a departure from the past five years. In fact, it adds to and sharpens what we have been doing all along. Business Plan 2.0 still promotes strong traded-sector clusters buoyed by leading-edge innovation, and it advocates policies that support cluster success and a competitive economy. It acknowledges, however, that most of our clusters in one way or another add green value to their products and services, and with some of our newer clusters, the products and services themselves are green. It also acknowledges that many of Oregon's core values and public policies are environmentally progressive. They enhance our green reputation and competitive advantage.

The timing for greening Oregon's economic development strategy could not be more opportune or urgent. We face a confluence of rising energy costs, uncertainty over energy supplies, Americans' desire for energy independence, global climate change, regulation of greenhouse gas emissions, a mobile workforce that picks "place" first[*], and a rapidly growing consumer base that factors sustainability into what it buys[**] With grant support from the Meyer Memorial Trust, we have sounded businesses across Oregon this past year about how they are responding to this opportunity, and how the Business Plan can help. Business Plan 2.0 will continue that conversation.

This green evolution in the Business Plan is a natural extension of where we started five years ago, when we met at the first Leadership Summit in the depth of the last recession. With the goal of creating more quality jobs for Oregonians, the original Oregon Business Plan laid out this vision:

> To revitalize and sustain the Oregon economy, we should position 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.

In the face of intense global competition, where routine commodity products migrate to low-wage, low cost locations around the world, we envisioned a path defined by "thriving businesses that lead their industries in ideas, innovation and design, market reach and staying power." The plan recognized that knowledge and talent networked across a community creates economic activity that resists migration and sustains local communities and economies.

OREGON BUSINESS PLAN 1.0

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

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

With this vision for the economy in mind, we asked industry leaders in a range of businesses across the state what broad conditions in Oregon would give their firms a competitive advantage. The answer that came back was consistent: Pursue a balanced and comprehensive

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[*] A 2006 survey conducted by the Segmentation Company notes that among well-educated 25- to 34-year-olds, 64 percent pick a place to live first, then find a job while 36 percent take a good job wherever it leads them.

[**] A 2006 study by the Natural Marketing Institute (NMI) reports that the $200 billion-plus industry that caters to consumers oriented to a health and sustainability lifestyle is on track to jump to $420 billion in just three years and then soar to $845 billion by 2015.

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.

To achieve the Four Ps, the Business Plan promotes a range of policy initiatives designed to mitigate weaknesses or improve our advantages in innovation, human talent, quality of place, and in public infrastructure and business costs that impact productivity.

This framework has proved to be durable and reliable. It has helped Oregon to take the lead nationally and internationally in focusing economic development policy on support for industry clusters. It has also helped Oregon business and public officials work together on a broad array of policy initiatives to strengthen the Four Ps.

Porter's Appraisal

In his address to the January 2006 Leadership Summit, Harvard Professor Michael Porter, an authority on regional competitiveness, complimented the direction of our cluster work and policy initiatives. Yet they aren't enough, he said. Referring to his studies of competitiveness among nations and regions, Porter said it isn't sufficient just to build clusters and improve the conditions for economic success.

> You've also got to identify [your] strengths and try to build on them. So far in this [Business Plan] effort, we've been focusing more on mitigating weaknesses. Now we have an inflection point… where we've got to focus on articulating [a] unique regional strategy … unique regional value proposition.

> ***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***

Pondering what makes Oregon unique – and a potential economic magnet – Porter suggested Oregon should find ways to translate its reputation for environmental sustainability into a distinct competitive advantage. Developing a policy and regulatory framework that is both pro-business and pro-sustainability, he said, would be "epic."

At last year's Leadership Summit, taking Porter's suggestion, the Oregon Business Plan Steering Committee proposed that Oregon establish itself as a leader in sustainable practices as a way to give our state and its firms an edge. The response by those assembled was overwhelmingly positive, and since then we've found widespread agreement with this direction among experts, business leaders, and citizens around the state. Our businesses, government agencies, academic institutions, and nonprofits are already well out ahead in the pursuit of sustainability, notably in green products, services, expertise, and policy advocacy, so this evolution of the Business Plan reflects and focuses what is already happening.

The Opportunity in Business Plan 2.0

Growth in regional economies around the world is putting tremendous pressure on resources and the environment, and this growth is likely at its present rate to be unsustainable. Western economies are bumping up against new constraints as they cope with dependence on external energy sources, uncertain energy prices, loss of wetlands and open space, conversion of forest and agricultural land for development, and regulation. Consumers are becoming more conscious of these environmental concerns as they select products and services, and more importantly, there is likely to be a new wave of regulation intended to halt environmental degradation, encourage energy efficiency, and make better use of land and public infrastructure.

Evolving resource limitations, market forces, and regulatory policies create a powerful opportunity for economies built on sustainability. They will better navigate emerging constraints in resources and regulation by reducing their environmental footprint, making better use of raw material, producing products more efficiently, and reducing costs and improving margins. At the same time, they will tap growing markets where sustainable practices and products appeal to customers. What they learn and produce in achieving this advantage will become marketable itself. So, there is now a race on to achieve this stature and capability, and the rewards to the winners will be substantial.

We think Oregon should be one of those winners.

Oregon already has a head start, and it should leverage and sustain that lead. If it does, we believe that Oregon will be a place where innovative companies and talented people flock and where traded-sector clusters beat their competitors in operating efficiencies, waste and cost reduction, and sales.

That's our vision of Business Plan 2.0. It meets the criteria that Dr. Porter describes as essential for a competitive regional economic strategy: 1) a distinct value proposition, 2) a regional business environment – including institutions and policies – that supports the value proposition, and 3) a commitment to maintain parity in best business and economic practices.

OREGON'S GREEN EDGE

Here is a sample of factors that position Oregon well to be a global leader in sustainable development:

- An unusually high concentration of supporting institutions, knowledge, and services in sustainability. These include the national headquarters of the Natural Step, the Food Alliance, the Green Electronics Council, and the Climate Trust.
- Choosy customers who foreshadow global market trends. Oregon has more hybrid ownership, more green buildings, more renewable power customers than anywhere else in the country.
- Geographic endowments. The Oregon landscape is well suited for renewable energy projects, and its sweeping beauty and recreation opportunities attract talent to the region.
- Policy leadership. Examples include land use planning, sustainable forest practices, recycling, and business energy tax credits.
- Brand leadership. Oregon has a worldwide reputation for sustainable policies and development.
- Business leadership and investment. Companies such as Nike and Intel are world leaders in incorporating sustainability, and Oregon is seeing a boom in green building and other green clusters.

Why We Think Oregon Can Lead

Of course, many places are now jumping on the sustainability bandwagon and many places are making legitimate efforts to reduce their environmental footprint. What gives Oregon the edge?

There are many answers to that question, but the first is that it's in our culture. Long before it was fashionable, Oregonians embraced everything from recycling to reforestation to sustainable urban design.

The next answer is Oregon's quality as a place, cited in focus groups and polls as our best economic asset. A well-cared-for place attracts people who care about place and preserving its values. It's no accident that schools of land use planning and urban design around the globe look to Oregon for leadership, or that foresters from around the world come to learn about Oregon's forest practices.

The burgeoning market for green products and services will offer plenty of opportunities for business and job creation.

As entrepreneurs, consumers and citizens we're ahead of the curve. An interlocking and reinforcing set of attitudes, policies, experience and knowledge put us farther along the path of figuring out how to integrate sustainability into our way of life. A widespread interest in and support for sustainability produces the kind of shared insights and mutually reinforcing actions that make this, more than any other place in the nation, and more than most places in the world, a hotbed of innovation in a wide range of sustainable policies.

None of this is to say that Oregon plans, or expects to have a monopoly on sustainable practices or businesses. But the burgeoning market for green products and services – and the likely regulation that will continue to expand those markets – will offer plenty of opportunities for business and job creation.

Our discussions with Oregon businesses over the past year have validated the market potential of a sustainability strategy. The economic benefits to gain from sustainability include selling entirely new products that incorporate sustainability (such as wave energy), providing services (such as architectural design and planning that go into green buildings), and developing better processes that reduce business costs and position our companies well to deal with potential regulation.

Yet building a more sustainable economy extends beyond business. Oregon's consumers, with their strong interest in sustainability, constitute a critical initial market for green businesses, playing a role that Michael Porter calls "demanding customers" who prompt innovative products and services. Similarly, the state's public policy environment creates the institutions and incentives that enable and encourage sustainability.

Our relatively small size and good communication across sectors (as evidenced by the Oregon Business Plan process itself) are also advantages in innovating policies and acting on business opportunities in sustainability.

What Stays the Same, What Changes With Business Plan 2.0

A green Oregon Business Plan enhances but does not alter our basic ongoing work: supporting the growth of traded-sector clusters and promoting public policies and investments that foster favorable business conditions for cluster success. That means we will continue to promote sound fiscal policies, strong education and workforce programs, a culture and infrastructure of innovation, affordable quality health care, and a reliable transportation infrastructure.

Based on interviews with business leaders during 2007 the priorities we have been addressing all along remain critical for enhancing conditions for economic prosperity across all clusters. Going forward, however, we will be looking for opportunities in all of these activities to capitalize on sustainability as a competitive advantage. For example:

Sustainability in Cluster Development. We should be especially alert to emerging clusters that address global environmental challenges. For example, Oregon is taking the lead in green building, with Oregon-based firms exporting their expertise on projects well outside our borders. Another example is the surging growth of solar equipment design and manufacturing in Oregon. As part of our larger strategy, we should be particularly alert to nurture these emerging clusters. Wave energy offers an example. The Oregon coastline has promising sites for wave energy development and there is considerable expertise at hand in this technology, particularly at Oregon State University. Oregon InC recommended, and the Legislature approved, funds to develop opportunities in this promising cluster.

Sustainability is reflected in this year's *Cluster Resource Guide*, a companion document prepared for the Leadership Summit. As we sought input from clusters, we paid special attention to the emerging green industry clusters.

Sustainability as a factor in current initiatives. For each of the major Business Plan initiatives, we now need to focus on how the initiative can enhance our position in sustainability and green development. For example, Oregon has committed to a broad initiative to enhance our capacity for innovation through the work of the Oregon Innovation Council. This past two years, the work of the Council has already been sharpened to focus on innovation that specifically relates to sustainability. The wave energy initiative described above is just one example. In addition, Oregon Inc sought and received funding for building a signature research center on sustainability in the Oregon University System, the Bio-Economy and Sustainable Technology Center (BEST) and a variety of initiatives that support the vision of Oregon Business Plan 2.0.

Transportation, a lead topic in this year's summit, illustrates the linkage of a bread-and-butter infrastructure issue and sustainability. Of all modern infrastructure, highways, bridges, and streets probably get the hardest prolonged use. In Oregon's case, this is accelerated as the population and economy grow at a strong pace. Against this growing use of our road infrastructure we are falling behind in upkeep, congestion is mounting, and travel delays are becoming a growing, daily fact of life. This lag in road system upkeep puts our industries and economy statewide at a competitive disadvantage, and it impairs our quality of life.

The transportation initiative this year calls for a fresh look at transportation system design, operation, and governance.

Oregon needs to face this transportation challenge. As we do so, we need to make transportation choices aimed to improve mobility for individuals and for commerce, *and* we must do so in a way that will reduce our carbon footprint without sacrificing other environmental values. Oregon has a long history of innovation in transportation. In the face of these challenge, however, the transportation initiative this year calls for a fresh look at transportation system design, operation, and governance.

In education and workforce preparation, we need to build sustainability principles and practices into the curriculum. Oregon's universities and community colleges already are leaders in sustainability education, according to work completed by the Academic Excellence and Economic Development Working Group commissioned by the Oregon State Board of Higher Education. We should build on this lead.

Sustainability also is fundamental to our vision for public finance in Oregon. The basic premise in the Business Plan, illustrated in the virtuous circle on page 10, is that a strong economy pays for vital public services. In turn, quality services in areas such as education, physical infrastructure, and public safety form the foundation for a healthy economy. All our public finance recommendations build upon this principle.

GREEN ADVANTAGE IN THE OREGON BUSINESS PLAN

OREGON BUSINESS PLAN 1.0		OREGON BUSINESS PLAN 2.0
GOAL Quality jobs for Oregonians	▶	OREGON SHINES GOALS • Jobs • Environment • Community
VISION FOR THE ECONOMY Develop leading-edge traded sector industry clusters	▶	VISION FOR THE ECONOMY Leading-edge traded sector clusters • Forestry, agriculture and other resource clusters globally recognized for environmentally sustainable practices • High technology, sports apparel, manufacturing and other clusters known for sustainable products, practices, or both to improve bottom line while enhancing environment and community • New "green" clusters to in renewable energy, conservation services, and green design flourish here
STRATEGY – FOUR Ps FOR PROSPERITY • Pioneering Innovation • People • Place • Productivity	▶	STRATEGY – FOUR Ps FOR SUSTAINABLE PROSPERITY • Innovation agenda extends to focus 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
INITIATIVES • Public Finance • Education/Workforce • Health Care • Economic Innovation • Transportation	▶	INITIATIVES • Weave sustainability into current initiatives (listed at left) • Consider: ▪ A fresh look at land-use ▪ Eco-systems services markets ▪ Oregon as a global center for sustainability learning ▪ Federal forest health ▪ Other issues as they take shape

Sustainability in new initiatives. We add new initiatives to the Oregon Business Plan as current work is completed. Initiatives provide the framework for business leaders, public officials, and other community leaders to work together. This year the Business Plan sought recommendations for new initiatives that would help achieve our vision for Oregon as a leader in sustainability.

Consequently, at this year's Summit we will hear four new initiative proposals that were shaped through discussions with industry focus groups, community leaders, and a committee of business leaders with an interest in sustainability. Initiative advocates will pitch their proposals and Summit participants will respond through electronic voting. Here are this year's candidates:

- *Make Oregon a Global Center for Learning and Application of Sustainability*. Oregon today is a center of knowledge on sustainable practices, with expertise among leaders in business, nonprofits, government, and education. We have the opportunity to share that knowledge with the world. This proposal will help us attract more talent, enhance our own learning and development, and strengthen our reputation as a global leader. Business leaders, teaming up with the University System, should take the lead.
- *Take a Fresh Look at Land-Use Planning*. Much has changed since the Oregon land use system was adopted over 30 years ago. Our industries have changed. Ecological challenges are different. Much has been learned about the tools that can be used to shape the landscape. The Big Look Task Force authorized by the 2005 Legislature with the encouragement of the Oregon Business Plan was addressing these issues, but its work was not funded by the 2007 Legislature. The Big Look needs to be revived.
- *Expand the Ecosystem Marketplace*. Oregon is taking an early lead in developing infrastructure that allows businesses to purchase ecological services from others as a way of mitigating their own environmental pollution. Oregon has the opportunity to leap ahead in this area. Trading can lead to better environmental outcomes at a lower cost to business. It also creates the opportunity for national and global leadership, with the potential for Oregon to become a center in this field.
- *Address Federal Forest Health*. This initiative brings together environmental, community and forest products interests to find ways to manage federal forests through approaches that dramatically improve forest health and reduce the risk of catastrophic fires, provide material for wood products and generation of electricity, and help stabilize local economies. It is a classic example of policy aimed to achieve the triple bottom line.

What You Can Do To Help

The initiatives described above are just the beginning of a long journey to position Oregon as a green leader. We invite members of the business community and our other partners to come forward with additional proposals. Two areas in need of committed leadership are water policy and energy policy.

However, Business Plan 2.0 is also not just about policy. It's also about actions individual companies can take. As described earlier, Oregon has a concentration of expertise in helping companies embrace sustainability. We encourage you to access Oregon-based expertise and resources such as the Oregon Natural Step, the Southern Oregon Business Sustainability Forum, and the Portland Business Alliance green team forum. Other good resources include www.sustainableoregon.net and, in the Portland Area, the City of Portland's Office of Sustainable Development. These are just a few of many organizations that share best practices and help companies reduce their environmental footprint.

2. 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:

- Expand the budget horizon and establish performance expectations.
- Finish the Reserve Fund work.
- Diligently monitor the condition of the volatile pension system.
- Review public employee compensation and ensure that public-sector pay supports the state's strategic goals.
- Diversify the state tax base and address the inadequacy of local revenue in timber counties.

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

When the Oregon Business Plan was launched in 2002, we offered the following perspective on public finance:

> A healthy economy and an efficient system for providing and financing essential public services are vitally interdependent. A high-wage, high-skill economy enables us to finance needed public services with relatively low tax rates. Good public services, including education, infrastructure, public safety, and transportation, are critical to a growing and prosperous economy. Today, our economy is neither growing nor prosperous, and our ongoing budget crisis has undermined our ability to provide essential public services.

Oregon has come a long way in five years.

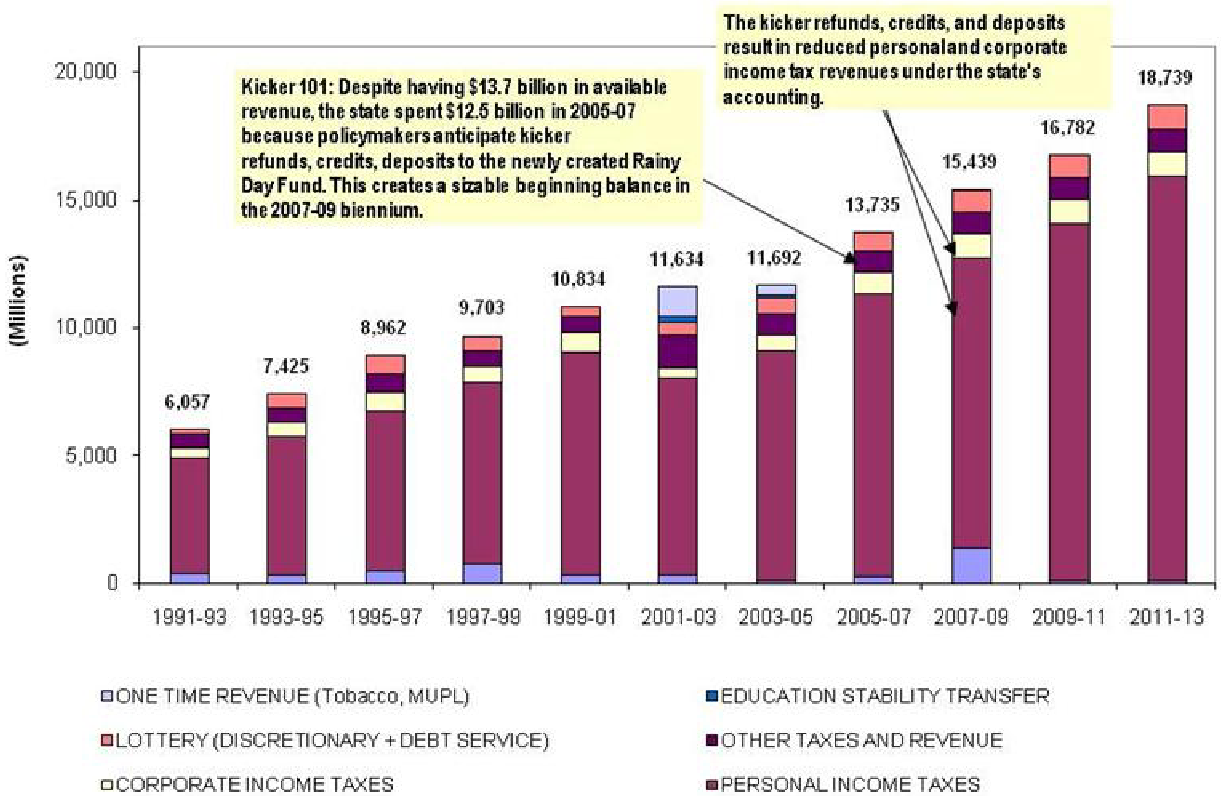
In Fall 2002, the state was in the grips of a recession that triggered unprecedented budget deficits and painful choices. A poorly designed and mismanaged retirement system (PERS) was draining resources from school classrooms and other critical public services. Lawmakers were debating which cuts to healthcare would be "lethal". The State Police laid off troopers, and local sheriffs released inmates to curb costs. The editors of the *Tulsa World* summed it up best: "Oregon, for all its beauty and independence, has a lot of problems."

Five years later, the state's fiscal climate is markedly stronger. Policymakers – led by Governor Kulongoski – reformed PERS, balancing the interests of retirees, new public employees, students, the elderly, and taxpayers. The state created two reserve funds to soften the impact of the next fiscal downturn. Corporate tax policy was adjusted to strengthen incentives for export-related industry.

ACCOMPLISHMENTS TO DATE

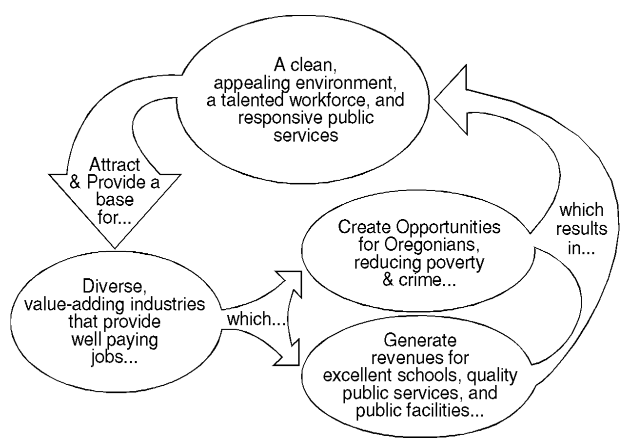
- ✓ The 2007 Legislature created a Rainy Day Fund – adding $320 million to reserves and complementing the Education Stability Fund.
- ✓ The 2003 Legislature enacted comprehensive PERS reform that created a separate retirement system for newly hired employees and limited conditions under which more than the PERS guaranteed rate could be credited to Tier 1 members. These reforms, coupled with favorable financial markets and court decisions 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.

Available General Fund and Discretionary Lottery Resources,
1991-93 Through 2011-13



Source: ECONorthwest calculation using DAS September 2007 forecast and data from Legislative Revenue Office

The results are striking. Oregon has followed the path originally envisioned in the Oregon Business Plan, and public revenues have surged as we have recovered from recession (See figure above). Lawmakers have invested in education and other vital services while supporting the build-up of two new reserve funds. The investments, especially in education, will in turn propel even greater economic growth. The Oregon Progress Board calls this positive relationship the Circle of Prosperity (see figure at right), a concept that is integral to the Oregon Business Plan. The Circle of Prosperity reminds us that the best source of revenue for public services is a strong, healthy economy.



Oregon is now ready to enter a new stage in strengthening public services. During the past Legislative session lawmakers adopted visionary plans in health care and education. SB 329 calls for increasing access to health care for all Oregonians while HB 3162 calls for dramatic increases in education attainment for Oregonians. Both of these initiatives, supported by the Oregon Business Plan, would strengthen Oregon's economy and enhance our quality of life.

Both of these initiatives will require funding. Absent a competent, long-term forecast of revenues and expenditures under current law, we are not in a position to know whether we will be able to afford them. And without clear performance expectations for these investments, we will not know whether we are receiving the returns we hope to attain from the money we spend.

Visionary policymakers need a level of rigorous and disciplined fiscal planning that Oregon's state government has never developed.

Visionary policymakers need a level of rigorous and disciplined fiscal planning that Oregon's state government has never developed. This is the opportunity and challenge ahead in 2008 as Oregon plans for the 2009 Legislature and beyond.

Agenda for 2008 and Beyond

The Oregon Business Plan calls on the Governor and Legislature to tackle five important fiscal challenges, each of which is summarized in the bullet points below and then explored more fully in the pages that follow.

- ***Expand the budget horizon and establish performance expectations.*** Absent long-term forecasts of revenues and expenditures, the state's visionary leaders – from both the public and private sectors – will struggle to implement broad, important policy changes to education and healthcare. The Governor and legislative leaders should develop and require 10-year forecasts of programs and policy initiatives under current law. As they expand the policy horizon, they should set clear performance expectations for each major program in the budget.

- ***Finish the Reserve Fund Work.*** Lawmakers and voters should be applauded for the creation of two reserve funds during the past five years. Oregon stands a much better chance of maintaining its core education, healthcare, and public safety services during the next downturn. However, some additional work should be done. The bulk of revenue sitting in the newly created 'rainy day" fund came from a one-time source, and the adequacy of the fund in future economic cycles hinges on the election of fiscally prudent lawmakers.

- ***Diligently Monitor the Condition of the Volatile Pension System***. Oregon's comprehensive reform to its pension system was perhaps the most difficult and important public policy change of the last decade. Strong investment returns since 2003 have further strengthened the system's financial position. However, PERS remains inherently volatile, and business leaders call for routine and robust analyses of the system's long-term condition.

- ***Review public employee compensation and ensure that public-sector pay supports the state's strategic goals.*** 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 sector 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. In some cases compensation may be too high, in some cases too low, and in others, generally appropriate.

- ***Diversify the State Tax Base and Examine the Adequacy of Local Revenue.*** Business leaders call for a revenue system that promotes economic vitality and provides stable support for fundamental public services. At the state level, Oregon's system falls short on both counts. At the local level, uncertainty around long-time federal payments has left critical public services in flux in the 18 O&C counties. Business leaders will participate on, and collaborate with, the Task Force on Comprehensive Revenue Restructuring to design an adequate and stable revenue system.

Expand the Budget Horizon and Establish Performance Expectations

While the work of the 2007 Legislature was expansive, the policy charges to interim boards and task forces are even broader. The Oregon Health Fund Board, created in SB 329, will examine possible Medicaid expansions and associated revenue increases to drive down the number of working adults without health insurance. In support of the ambitious education attainment vision and the new high school graduation requirements described in the next section of the *Playbook,* HB 3141 authorizes an Education System Design Team to recommend transformational changes – and required financial support – in Oregon's PreK-20 education system. Finally, the Task Force on Comprehensive Revenue Restructuring, a product of HB 2530, will devise a blueprint for a stable, predictable, and adequate revenue system.

These are three high-profile efforts with sweeping visions. If successful, the policies recommended by these groups could affect the lives of Oregonians for a generation or more. As the hard work begins, each group would benefit from state government asking and answering the same three questions:

1. What can the state accomplish through the programs it already has on its books?
2. How much will programs under current law cost tomorrow and a decade from now?
3. Is the revenue raised under current law adequate to fund existing programs?

Expand the budget horizon. The questions *can* be answered, and they *should* be. A variety of agencies and offices already generate most of the analytic work required to support a comprehensive, long-term budget forecast. The revenue side is reasonably solid. The state economist produces a seven-year forecast of general fund and lottery resources, and in his most recent work, has estimated baseline and alternative growth scenarios.

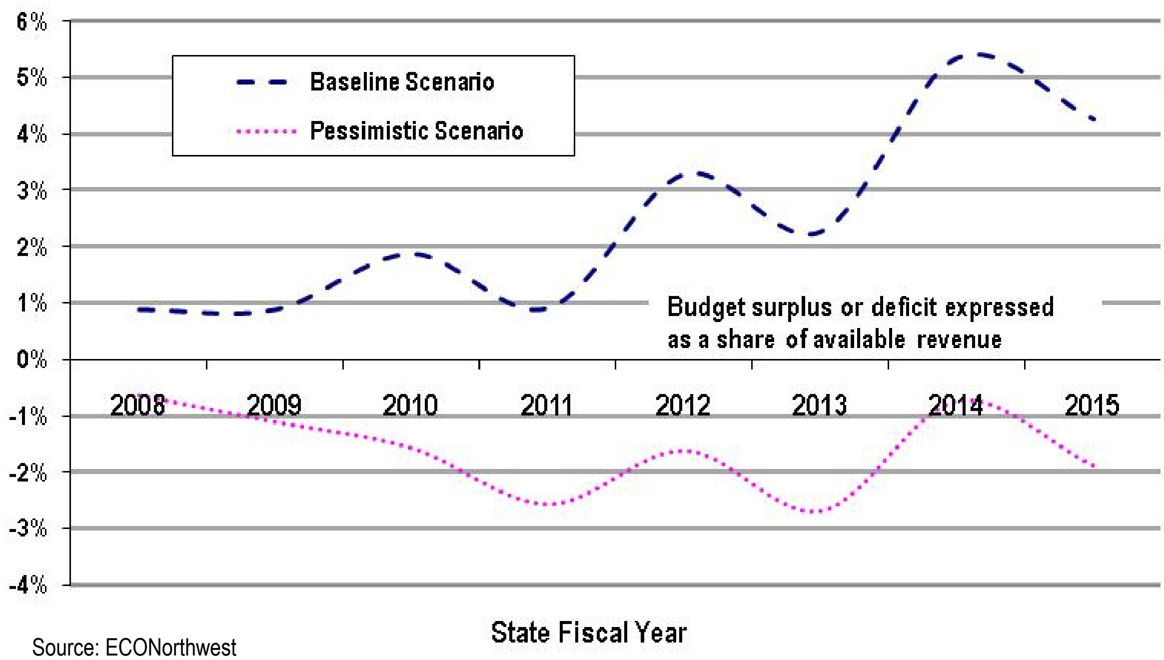
The expenditure side needs considerably more work. The Department of Education and Oregon University System produce credible student forecasts, but no state-level forecasting capacity exists for community colleges. Analysts at the Department of Human Services routinely forecast caseloads for programs ranging from Medicaid to foster care, but officials have yet to combine caseloads and per capita expenditures to produce comprehensive, transparent projections. Finally, the Department of Administrative Services routinely updates its state prison projections.

So, again, most of the essential building blocks of competent budgeting are in place. What's lacking is a clear and persistent place where all this information is pulled together into a long-term forecast of expenditures.

Assuming the state economist's baseline forecast proves accurate, ECONorthwest's calculations indicate that General Fund and discretionary lottery revenues should be sufficient to fund programs at their current levels through 2015 (see figure below – dashed blue line). In the immediate term budgets would be relatively tight, with surpluses varying between 1 and 2 percent of available revenue. Beginning in 2013, however, consistent growth in personal income tax receipts would outpace current service spending due – in large part – to relatively slow growth in student-aged populations.

While the baseline projection appears promising, the surpluses vanish under the state economist's pessimistic scenario (See figure below – dotted pink line). If the slower growth path unfolds, lawmakers would gradually reduce services throughout the forecast period, a pace of reductions less abrupt than during the last recession. Through 2015, budgets needs would exceed revenue by a cumulative $1.1 billion.

Projected Percentage Surpluses/Deficits Under Baseline and Pessimistic Economic Growth Scenarios, General-Lottery Fund Budget, Fiscal Years 2008-2015



Source: ECONorthwest

These projections by ECONorthwest are based upon limited data and information. Until we have an official forecast with the best data available, we really don't know whether or not today's revenue sources will be sufficient to cover existing programs through 2015. We need to develop a long-term expenditure forecast – like the long-term revenue forecast – so we know whether or not available resources are adequate to maintain existing programs or to fund new initiatives.

Employ better budgeting and budget management. Establishing a longer-term projection is only half the work. The state also needs to create transparent, performance-based budgets. 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 the number of people who deliver particular services, the number of people who receive them, or how either has changed over time.

To their credit, both the Governor and the Legislature have experimented with new budget tools. Building on this work, a revamped budget would:

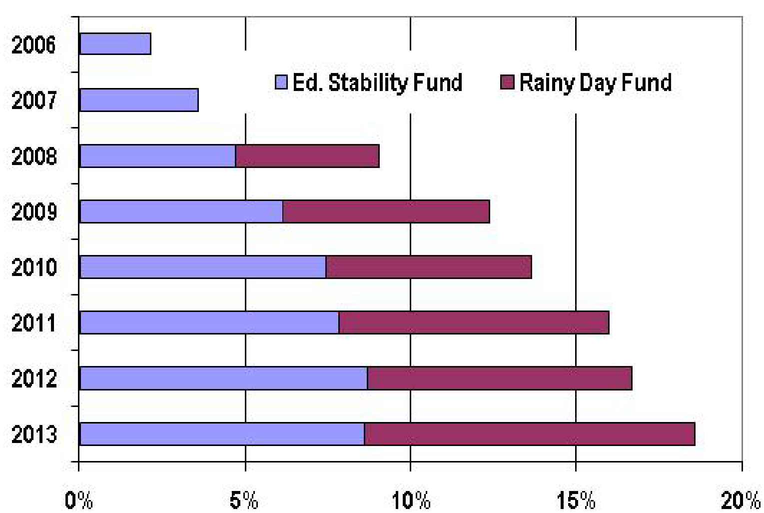
- *Provide transparent information.* Budget information would be clear and in a form the general public understands. Individual program budgets would "roll up" into an agency's total budget. Agency budgets, in turn, would roll up into broad functional areas (e.g., education).
- *Break down agency budgets by programs and costs.* Each agency budget would report its constituent programs, as well as, key cost drivers of each program, including employee costs, facilities, supplies, and transfer payments to individuals and other governments.
- *Tie budgets to results.* Policymakers should "purchase outcomes," not just allocate dollars. In order to purchase outcomes, the policymakers need to know the purpose of each program, the result it is intended to achieve, and how the agency measures whether the program achieves the intended result or not. Over time, the Legislature needs to hold programs and managers accountable for achieving targeted results.
- *Support rigorous accountability.* For each program, policymakers should ask: Did the program achieve its intended results? Can similar results be achieved at less cost another way? Has the program continued to improve over time? If the program passes these questions, legislators would be inclined to extend and possibly expand it. If not, they would be inclined to modify or terminate it.

Transparent, performance-based budgets will inspire policymakers to ask better questions about the goals and achievements of vital government work. Better questions are the first step to better governance.

Finish the Reserve Fund Work

The 2007 Legislature deserves high praise for expanding state government's operating fund reserves. Lawmakers created a Rainy Day Fund to supplement the existing Education Stability Fund. As a consequence, total reserves will jump from just 2 percent of operating revenue in June 2006 to 9 percent in June 2008 (see adjacent figure). For the first time in recent history, reserves fall in the broad range (5 to 15 percent of annual General Fund revenue) recommended by the nonpartisan Government Finance Officers Association (GFOA). The higher 15 percent target is recommended for states

Projected Ending Balances of Reserve Accounts Expressed as a Share of Annual General/Lottery Fund



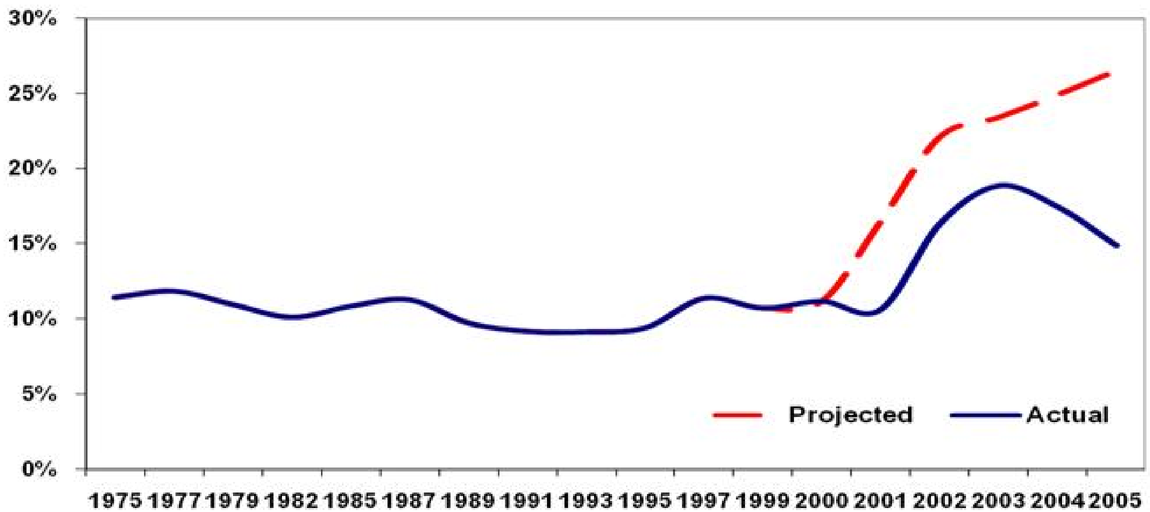
Source: ECONorthwest based on LRO and Oregon Office of Economic Analysis forecasts from May 2007 forecast like Oregon with undiversified and highly volatile tax portfolios*. Under current projections and assuming no withdrawals, Oregon wouldn't reach that goal until 2011. It is vitally important that policymakers not give into the temptation to withdraw from reserves or slow their buildup until they reach at least the 15 percent minimum target. In the short term, reserves remain underfunded.

Business leaders recommend two refinements to the Legislature's strong progress in building fiscal reserves. First, lawmakers should earmark the interest earned on General Fund balances to the Rainy Day Fund – roughly $40 million annually. Second, policymakers will need to consider other, permanent sources of revenue to fill the Rainy Day Fund in subsequent economic cycles.

Diligently Monitor the Condition of the Volatile Pension System

Few public programs in Oregon have received as much attention over the past decade as the Public Employees Retirement System – or PERS. 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 – if unaddressed – PERS' unfunded actuarial liability (UAL) would exceed $18 billion, which was more than all the taxes and fees collected by Oregon state and local governments in a given year.

Average System-Wide Employer Contributions,
April 2003 Projection versus Actual 1975-2005 Contributions
Expressed as a Share of Employer Payroll



Source: Milliman December 31, 2003 Actuarial Valuation; Milliman Letter to Hallock and Macpherson (April 15, 2003); Hallmark, Bill and Annette Strand. September 15, 2006. *Oregon PERS December 31, 2005 Actuarial Valuation Results*

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

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* See Government Finance Officers Association. 2002. *Appropriate Level of Unreserved Fund Balance in the General Fund.* Accessed on November 5th 2004 from http://www.gfoa.org/services/rp/budget.shtml

Continued improvement will come at a cost to public employers. Research commissioned by the Chalkboard Project and the Oregon Business Council indicates future employer contributions hinge on investment returns and remain highly uncertain. Very weak investment returns could push employer rates over 20 percent of payroll while very strong investment returns could lower rates below 10 percent of payroll. These findings elicit two, opposite reactions.

Some observers view the upcoming pension costs, and their effect on public services, as unacceptably high and call for additional changes to supplement the recent reforms. Others counter that the 2003 reforms appropriately shared the cost of addressing the system's excess liabilities between taxpayers and PERS beneficiaries and argue that no additional changes are necessary.

There are two views on upcoming public pension costs:1) they are going to be too high so additional system changes are needed, 2) the 2003 reforms spread the costs fairly, so no further changes are needed.

The Oregon Supreme Court – through its interpretation of employees' contract rights – will be the ultimate arbiter of how much change would be constitutionally permissible, whom the changes could affect, and when it could affect them. Through rulings on *Strunk* and the *Eugene Settlement*, policymakers have better insights into the Court's views on the legal environment. The policy options outlined in this report are bounded by two key interpretations of the Court's rulings:

- PERS Tier I members have the right to retire under Money Match – with accounts adjusted through the Eugene Settlement – if it provides higher retirement income than the full formula. Adjustments for other instances of excess crediting, prior to 1999, are not permitted.
- State and local governments cannot simply walk away from the PERS-related obligations by claiming economic or fiscal hardship.

The possibility of significantly lowering the cost of Oregon's public retirement system hinges on whether one agrees with these two interpretations of the Court's ruling in *Strunk*. Agree with them, and the range of reforms and expected near-term savings is limited. Reject them, and policy options and opportunities for savings expand.

Business leaders are pleased with the progress the state has made in PERS reform but fear, absent rigorous oversight, that the system could slide back into a weak financial standing. Specifically, business leaders call on the PERS Board to:

- *Conduct rigorous 30-year forecasts of the system's assets and liabilities under alternative financial market scenarios.* Weak forecasting methods, that failed to show system liabilities during volatile markets, played an important role in PERS troubles. Today, the system's funded status remains highly sensitive to investment returns, yet the routine analyses produced by the system's consultant assume fixed investment returns over time. To its credit, the current PERS Board has requested more sophisticated analyses that predict liabilities across a range of possible investment scenarios. This dynamic modeling approach, while more expensive, is worth the investment and should be conducted biennially at the very least. Moreover, the forecast period should extend at least 30 years into the future.

- *Forbid crediting in excess of the guaranteed rate***.** Among the 2003 reforms was a law that prohibited crediting in excess of the guaranteed rate of return until a newly created Tier I reserve account was fully funded. Because the actuary's estimate of a fully funded reserve would be inherently complex and controversial, business leaders propose a permanent prohibition on crediting Tier I accounts with more than the guaranteed rate of return.

- *Provide additional flexibility in charges against side accounts.* In some instances, the side accounts of individual employers have grown so large that – under expected investment environments – they could cover the entire retirement liability and have resources left over when debt service on the bonds expires in the mid-2020s. Given the size of the accounts, business leaders call on the PERS Board and policymakers to consider policies that would allow governments and school districts to liberate some of the investment gains sooner. To do so, PERS could expand the range of expenses that districts could charge against their side account balances.

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

While the Oregon Business Plan believes that the Governor, Legislature, and PERS Board should remain diligent on PERS' costs, the time has come to move beyond the narrow focus on pensions and to 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.

To move forward on this recommendation, 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, with reasons provided for any deviations from the competitive standard.

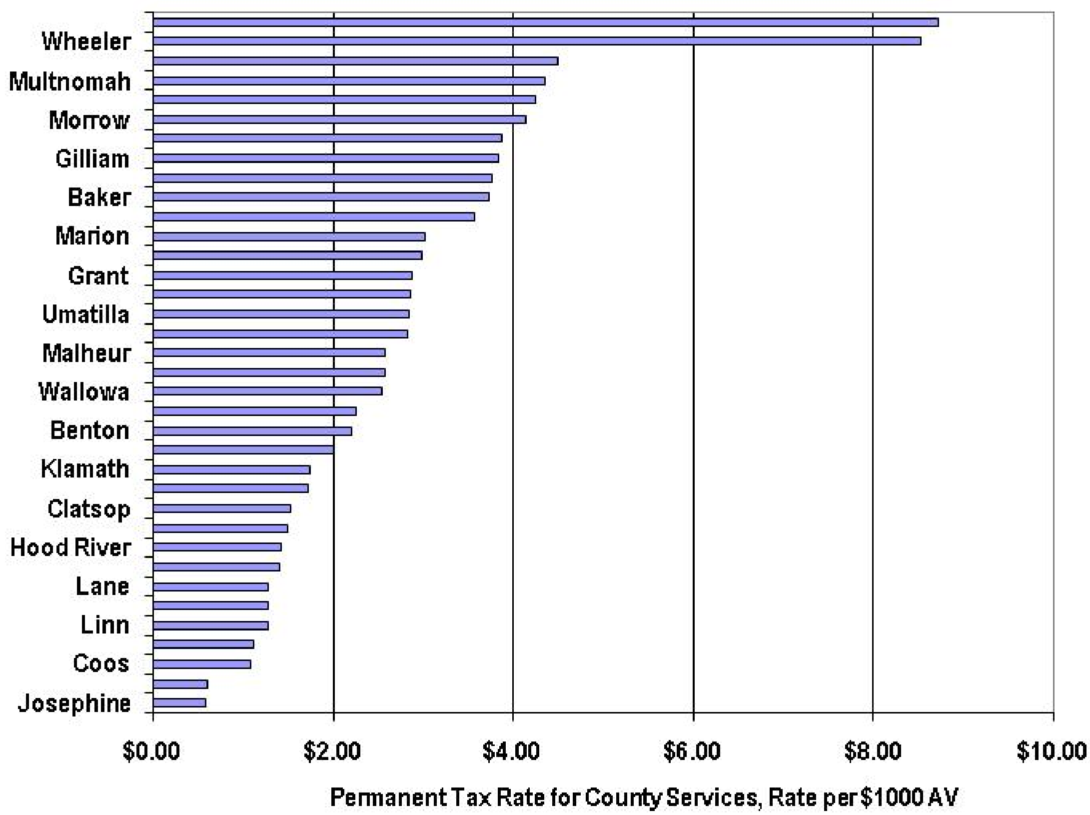
Diversify the State Tax Base and Address The Inadequacy of Local Revenue in Timber Counties

Oregon remains overly reliant on personal income and capital gains as a source of revenue. Both of these revenue sources are highly volatile and discourage investment. The Task Force on Comprehensive Revenue Restructuring is charged with developing proposals to create a stable, predictable, and adequate revenue system. At the state level, the panel should consider lowering the tax brackets as part of an overall effort to reduce our reliance on income taxes. We also remain convinced that reducing capital gains is part of the package. To achieve these and other goals, Oregon needs to take a fresh look at alternative state revenue sources including consumption taxes.

It's difficult to know when the timing will be right for comprehensive state tax reform. So many efforts have failed, it's hard to develop public support for specific tax reform proposals. The business community remains ready to be part of a serious process. In this regard, the Oregon Business Plan acknowledges the excellent work of Senator's Deckert, Morse, Schrader and Westlund to create a comprehensive plan to reform Oregon's budget and tax system. Their plan and their efforts to discuss it with the public provide a model for how to approach this difficult and critical challenge.

Business leaders are encouraged that the scope of the revenue task force extends to local government revenue, particularly given the large budget shortfalls anticipated by Oregon's 18 O&C counties. The state and the affected counties need to investigate permanent revenue solutions in the event federal payments end completely. To start, policymakers should reconsider the low permanent property tax rates locked in by Measure 50 (see figure, opposite page). For example, under the Measure 50 limits, Coos County collects only $1.08 per $1,000 of assessed value (AV) to operate county-run services. By contrast, Multnomah County collects $4.34 per $1,000 AV. A new home in Coos County with *real market value* (RMV) of $300,000 has an *assessed value* (AV) of $184,200 and generates only $199 each year for county services including the county sheriff, library, and public health services. In short, the permanent rates created by Measure 50 implicitly assume the continuation of federal payments. If the federal payments end, those permanent rates should be reconsidered.

Permanent Property Tax Rates
For County Services Established Through Measure 50



Source: Association of Oregon Counties

Public Finance Initiative Leaders

Malia Wasson, US Bank-Oregon
Brett Wilcox, Summit Power Alternative Resources
Ken Thrasher, Compli

Background Resources

“Public Employee Retirement in Oregon: Where Does the System Stand and Where Could Oregon Go From Here?” ECONorthwest, October 2007, Prepared for the Chalkboard Project and the Oregon Business Council

"Providing Stable and Adequate Funding For Public Services" (PDF) – Oregon Business Plan White Paper (January 2005)

Summit 2003 Discussion Paper: Public Finance) 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

3. EDUCATON AND WORKFORCE

RECOMMENDATIONS

For Oregon to succeed in the 21st century, all Oregonians in all their diversity must be educated at higher levels than ever before. Oregon should embrace the ambitious education benchmarks proposed by the Governor and adopted by the Legislature:

> 40 percent of Oregon adults should have a bachelor's degree or higher (compared with 28 percent now), another 40 percent should have at least an associate's degree or other technical credential, and the remaining 20 percent should have a high school diploma that represents a high level of academic and work readiness skills.

To meet these appropriately aggressive goals, business leaders call for both broad ***systemic change*** to the PreK-20 education system, as well as a number of ***targeted interventions***.

Systemic Changes

1. ***Embrace the new high school diploma***. The new diploma will require students to meet standards to prepare them for postsecondary study, work and citizenship. Policymakers, educators, and the business community need to find collaborative ways to support students and schools to achieve these results.
2. ***Support improvement of learning programs and delivery systems to help student meet the new graduation requirements***. Measures to do this should include small high schools, career academies, dual enrollment and early postsecondary credit programs, greater integration of career technical education and academic rigor, and closer integration of education and workforce programs.
3. ***Improve cooperation and communication among PreK-20 institutions, workforce organizations, and employers in implementing high school graduation standards and meeting the job skill requirements of career fields.***
4. ***Remove the financial barrier to postsecondary education for all Oregonians***. The state should guarantee that studies beyond high school are financially feasible for every student who graduates with the new diploma. To do so, Oregon should fully fund and broadly communicate the value of the Oregon Opportunity Grant and the Shared Responsibility Model.
5. ***Prepare a unified, transparent, student-centered budget, PreK-20 for review by the 2009 Legislature***. The new budget model will need to be jointly designed by the executive and legislative branches, and should help identify the highest priority actions for the 2009-11 biennium.
6. ***Advance work on a seamless, engaging PreK-20 curriculum and integrated student data system***.

Targeted Interventions

1. ***Respond to urgent industry needs.*** Oregon should focus on high-demand, high wage occupations. Key targets should include: a manufacturing workforce initiative connected to high school, community college and university for entry into technical and managerial occupations; continued investment in engineering to double the output of engineers in Oregon; and a curriculum for renewable energy and other jobs in emerging green industry clusters.
2. ***Invest in K-12 practices validated by rigorous research***. Oregon should direct School Improvement Fund resources to the handful of K-12 programs proven through experimental trials, including K-1 class size reductions, K-2 reading tutors and monitors for students at risk of dropping out of high school.
3. ***Investigate professional compensation models for teachers.*** Oregon should explore new ways to expand career paths and reward teachers for student achievement, such as Chalkboard's Class Project being piloted in three school districts.
4. ***Revamp K-12 teacher professional development***. Examine new strategies to support teacher professional development, including assistance in implementation of the new high school diploma.
5. ***Support innovative workforce development models.*** Create career pathways for adult learners that offer courses in small learning modules to enable progress while working, and continue work on developing career readiness certificates.

Next Steps

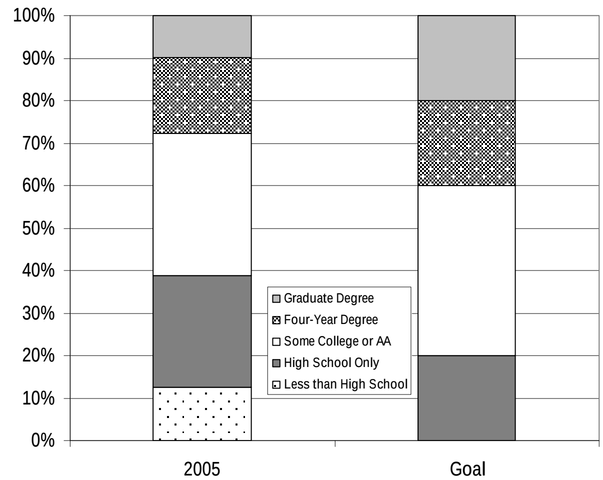
To achieve this bold vision, Oregon needs a dialogue among policy-makers, educators, business and community leaders and with the larger public. With this in mind, we call for

- A statewide Education Summit in 2008 to bring together key stakeholders.
- A broad-based engagement with the public to help refine the vision and earn support.

The Vision We Are Trying to Accomplish

Education is the foundation of Oregon's economic aspirations. For its companies and its economy to compete effectively in the global marketplace, Oregon must educate as many of its people as possible at the highest levels to which they aspire. All competitive, efficient enterprises require well-educated, skilled employees. This is particularly true of businesses that compete globally through innovation driven by knowledge workers. Such employees are going to be in shorter supply in coming years as the economy expands and as knowledge workers in the Baby Boom generation retire. Many Oregon employers say they are encountering these shortages already.

Oregon's Education Attainment: Current and Goal



Source: 2005 American Community Survey

In keeping with this vision, the Business Plan proposes that Oregon dramatically increase the education attainment of Oregonians generally, and, at the same time, concentrate resources on specific skills and job readiness for high-demand occupations that will support economic growth in traded-sector industries.

40-40-20. The broad vision for education attainment is captured in a formulation that has come to be called 40-40-20:

> 40 percent of Oregon adults should have a bachelor's degree or higher, another 40 percent should have at least an associate's degree or other technical credential, and the remaining 20 percent should have a high school diploma that represents a high level of academic and work readiness skills.

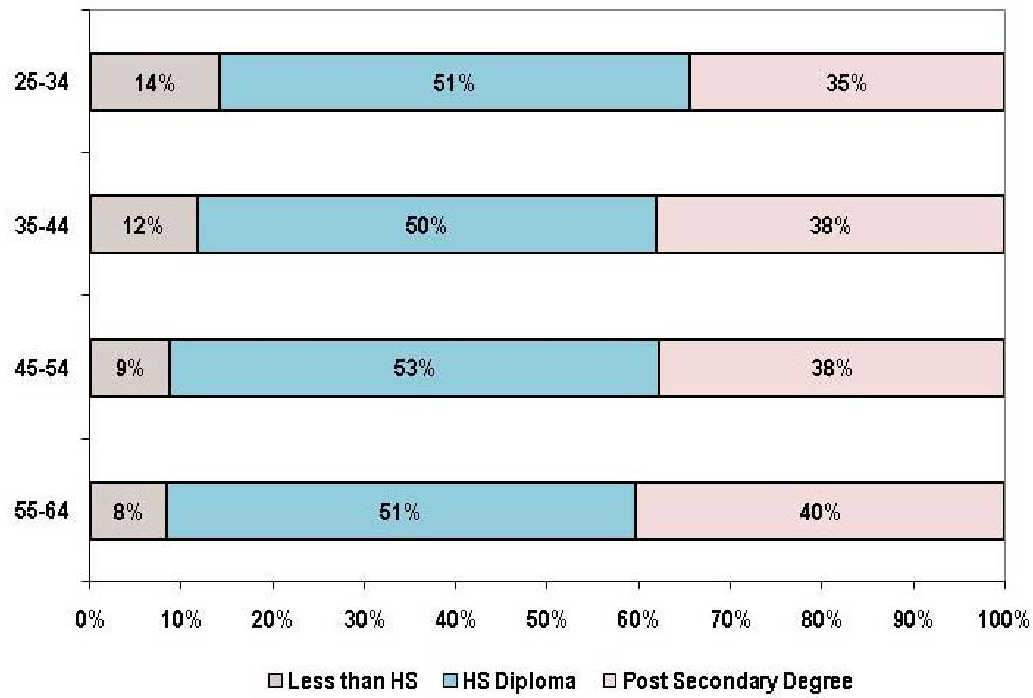
These attainment targets were embraced by Governor Kulongoski in his presentation of the 2007-09 education budget, and adopted by the Legislature in HB 3162. As the adjacent chart illustrates, this vision represents substantial increases in attainment at all levels.

The challenge of achieving such attainment should not be underestimated because Oregon is moving in the wrong direction. The generation of young working-age Oregonians (age 25-34) is more likely to have dropped out of high school and less likely to have graduated with a postsecondary credential than the generation poised to retire (age 55-64). While ambitious, these are levels currently being achieved in other nations and states. To be competitive economically, Oregon needs to step up its education attainment.

The 40-40-20 vision cannot be achieved overnight, but our experience with engineering education – where we are making tangible progress in doubling engineering graduate output – proves that feasible intermediate benchmarks can help us on the path to the larger vision. In the same vein, Oregon should also explore doubling the output of graduate-level health care professionals in the upper 40 percent target within a reasonable time frame (say, eight to ten years). In the 20 percent target, it should put resources and incentives in place to be sure that students without a high school diploma are at least *working* on a diploma, a GED, or other postsecondary certificate.

The recommendations that follow in this section will help Oregon turn out more well-educated Oregon residents. But the state should also adopt strategies to encourage innovation-driven companies and talented people to locate here, using as leverage our quality of life and our lead in sustainability. Attracting more top high school students from out of state to our public and private four-year institutions is another way to import well-educated talent. Many who go to school here decide to stay.

Educational Attainment Rates of Working Age Oregon Residents, 2006



Source: ECONorthwest analysis of 2006 American Community Survey

High-Demand Workforce Strategy. From the perspective of economic development, the urgency of achieving these goals can hardly be understated. Earlier Business Plan papers have documented the challenges facing Oregon with growing requirements for skilled labor, and the shortages facing many employers. The Workforce Investment Board reached similar findings in its strategic plan, *Winning in the Global Market*. In focus groups with industry clusters conducted this fall for the Oregon Business Plan, nearly every group cited workforce issues as a key constraint to growth in Oregon. In manufacturing, for example, 43 percent of firms report a shortage of skilled workers *now*, according to the *Oregon Manufacturing Workforce Strategy*. Engineering companies report a severe shortage in engineers and computer scientists with a bachelor's degree or higher. Likewise, companies that depend on technology, such as banks, insurance companies, and hospitals, are encountering more difficult in finding highly qualified candidates for technical positions.

As noted later in this initiative paper, Oregon can address this problem in part by expanding the workforce education component built into its new high school graduation requirements, and proven in a number of school districts in Oregon.

Within this framework we also propose that Oregon continue to focus on education attainment in high demand occupations that will support economic growth. For example, demand is growing for scientists and engineers among technology and innovation clusters, and for production technicians and front line managers among manufacturers. Job demand is also growing outside of the traded sector in areas such as health care and in our emerging green industries. In December 2007, Oregon is expected to complete a "Sustainable Oregon Workforce" study. Decision-makers should pay close attention to the recommendations that come out in this report.

Employers can also address such shortages in significant part by broadening their target workforce to include people with disabilities, retirees returning to work, and individuals from diverse communities historically underrepresented in the workplace. Achieving this greater inclusiveness will require a more effective business-education partnership than ever before. The adjacent sidebar updates recent progress in workplace inclusion for Oregonians with disabilities.

UPDATE: GREATER INCLUSION OF WORKERS WITH DISABILITIES

The Oregon Business Leadership Network, with business and public sector partners, made several recommendations in last year's Business Plan to help Oregon businesses recruit and accommodate more workers with disabilities.

One of these recommendations was to create an interactive website as a forum for business-to-business networking and as a resource on accommodation measures and resources.

Since the site, OBLN.org, was launched in 2005, its visits have grown to about 8,000 a month. It contains an e-magazine on inclusion issues and it has become a key tool in achieving two other recommendations: 1) creating a clearinghouse of accommodation resources and brokerages to meet business needs, and 2) creating a smoother interface between accommodation expertise and Oregon business. In 2008 the site will add blogging and streaming video capability.

OBLN has also made progress on its recommendation to offer business-led forums on linking accommodation strategies and measures to business plans. It conducted eight forums in 2007 with 25 to 30 businesses in attendance at each. It hopes to offer 12 such forums in 2008.

Other notable OBLN accomplishments:

- Opened a Salem chapter.
- With the Oregon Business Plan, produced a video, "My Abilities" to acquaint employers with the skilled contribution of disabled workers.
- Expanded its student intern program, involving students in 12 companies.
- Continued to give high school special education students work site exposure.
- Held a career fair, bringing employers together with 400 job seeking students and adults with disabilities.

Where We Stand

The report is mixed regarding Oregon's efforts to improve its PreK-20 education system. There were some big wins for education in 2007, and education officials have continued in earnest to make system improvements begun several years ago. We applaud and support these accomplishments, yet need to realize we have more work ahead of us than behind us in achieving the 40-40-20 vision. In particular, Oregon must make the entire education experience from preschool to technical training to graduate school more seamless and cohesive, and it must fundamentally redesign the education experience for the adolescent age span that encompasses the end of middle school through the beginning of postsecondary education. In particular, the high school experience must become more interesting, challenging, supportive, and rewarding for more students.

Wins in 2007. This year, Oregon renewed its focus on education.

- *Funding Restoration.* With strong revenues in hand, the Legislature restored at all system levels a large share of funding that has languished in recent years. Not only did the K-12, community college, and university systems receive significant increases, so did targeted investments along the education continuum that have promising results such as Head

Start, engineering (ETIC), health occupations, and the Oregon Opportunity Fund, the state's need-based grant program for college students.

- *New High School Diploma Standards.* In January 2007 the State Board of Education adopted demanding new standards for earning a high school diploma, and in the 2007 session, these were adopted as law. Under these standards, the knowledge and skills required for successful entry in postsecondary education are the same ones required for successful employment, in particular in skills such as reading, writing, math, problem solving, and teamwork.

- *Action on Budget Overhaul.* The 2007 session authorized and funded an Education System Design Team through the Governor's Office to take up overhaul of the state's fragmented education budgeting process.

- *K-12 Teacher and Administrator Mentoring.* All new Oregon teachers, principals, and superintendents will receive two years of high quality mentoring, which will phase in over four years. The assistance is designed to reduce the attrition rate among new teachers, 37 percent of whom leave the profession during the first five years.

- *Rewarding Transportation Innovation and Elevating Best K-12 Business Practices.* The Legislature charged the Oregon Department of Education with evaluating the K-12 transportation funding formula and developing alternatives that reward innovation. Lawmakers also funded a process through which the Secretary of State's Office will identify and disseminate best business practices in local school districts.

HIGHLIGHTS OF
RECENT ACCOMPLISHMENTS

- ✓ The state's 2007-2009 budget increased investment in education across the board, including full funding for Head Start, increases in funding for engineering related programs, and a significant increase in postsecondary need-based financial aid.
- ✓ Oregon adopted new, more rigorous high school graduation requirements.
- ✓ The Legislature authorized an effort to redesign the state's education budgeting.
- ✓ The Legislature expanded teacher and administrator mentoring program.
- ✓ 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.
- ✓ The Department of Education will examine alternative methods to finance student transportation with the goal of rewarding local district innovation.
- ✓ Legislators launched an effort to identify and disseminate best business practices in K-12 school districts.
- ✓ Oregon now has adopted strategic plan for workforce development, ***Winning in the Global Market.***
- ✓ The Legislature adopted the Shared Responsibility Model as a better way to distribute state need-based financial aid.
- ✓ 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.
- ✓ The Board of Higher Education led efforts to create programs that support students in pursuing high-demand occupations in fields such as health care and engineering.
- ✓ 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.
- ✓ Governor Kulongoski created the Employer-Workforce Training Fund to help create and retain living wage jobs in Oregon and to develop a highly skilled workforce.

To meet Oregon's appropriately aggressive vision for education, business leaders call for both broad *systemic changes* to the PreK-20 education system, as well as, a number of *targeted interventions*. The former are strategic and the latter tactical. Oregon needs both approaches to achieve its ambitions in education attainment.

Systemic Changes

1. ***Embrace the new high school diploma***. Oregon's new high school graduation requirements, due to be phased in over the next seven years, are designed to better prepare Oregon students for postsecondary education, work, and citizenship. The new diploma raises the bar for graduation credits in two important ways. First, it increases the minimum number of required credits to graduate from 22 to 24. Second, it increases the number of required credits in the core subjects of Math, English, and Science, and further specifies that Math credits must be at the Algebra I level or higher.

   Just as importantly, the new diploma calls for competence in two broader sets of skills and knowledge that both postsecondary educators and employers agree are essential for success in studies and occupations after high school. Under the new requirements, students must leave high school competent in what are called *essential skills*. These are skills in reading, writing, math, listening, speaking, reasoning, and inquiry. Students must also meet *career related learning standards* – demonstration of personal management, problem solving, communication with others, teamwork, an understanding of the employment environment, and capability in setting career goals and developing a plan to achieve them.

   The state will phase in the new diploma requirement for all school districts over the next seven years. It should be noted that high school graduation requirements in some school districts already meet or exceed the new standards, and many students, on their own initiative, have met or exceeded these requirements for years.

   Business leaders applaud the new diploma requirements and call on policymakers to fund their timely and full implementation.

   In order to give all students the opportunity to meet the new high school requirements, school districts will have to revamp their expectations and accelerate learning, beginning with kindergarten. Teachers and administrators must retool, and they'll need resources to do that. The Diploma Implementation Advisory Task Force is charged with advising the State Board on technical aspects of the transition, including cost, capacity, teacher supply and demand, and alignment with postsecondary curricula. Business leaders applaud the new diploma requirements and call on policymakers to fund their timely and full implementation. Business leaders also commit to working with educators to implement the essential skills component.

2. ***Support improvement of local learning programs and the systems that deliver them, so students can meet graduation requirements and ready themselves to succeed in both postsecondary education and employment.*** For example:

   - *Develop and support new high school models including small schools, career academies, and early college designed to support all students achieving the high standards established in the new diploma.* Oregon needs to revamp high school education. Large, impersonal high schools, which were originally designed to prepare a handful of young people for college and the majority for low-skill jobs, are obsolete. Technology and a competitive global economy have created the need for all young people to have high skills and a postsecondary education to succeed. Small schools provide a personalized learning environment where students work on complex projects, study multidisciplinary topics, meet high expectations, and demonstrate what they know and can do. A growing body of evidence suggests students in small schools have higher grade point averages, perform better on standardized tests, and tend more to stay in school and graduate.

A growing body of evidence suggests students in small schools have higher grade point averages, perform better on standardized tests, and tend more to stay in school and graduate.

State policymakers and local school boards should encourage and expand the career academy model. Career academies, which combine college preparatory work with technical and occupational courses in small learning environments, have boosted the post-school earnings of program participants. In a multi-site, experimental evaluation, the Manpower Demonstration Research Corporation (MDRC) reported the academies significantly reduced dropout rates among students at high risk of school failure – 32 percent of the non-academy high risk students dropped out of high school compared with 21 percent of their high-risk academy peers. Moreover, young men involved with the program earned $10,000 more than non-academy men during a four- year follow-up period. Career academies are a widely deployed intervention across the United States, and in Oregon, more than a dozen academies are formally associated with the Career Academy Support Network (CASN). Business leaders call on the Legislature to provide technical assistance grants to existing academies to ensure they incorporate the curricula and instructional practices proven through the rigorous national evaluations.

Oregon must expand dual-enrollment, postsecondary options and college-in-the-high-school programs statewide with the goal of accelerating student learning to allow students to graduate from high school sooner and begin accumulating postsecondary credits earlier. Excellent dual-enrollment opportunities exist in pockets (such as McMinnville High School); however, Oregon still lacks clear state-level policies designed to create systematic opportunities for students to move through the high school curriculum and begin college-level instruction when they are ready. Such acceleration and additional learning options for students who have mastered the state standards or who demonstrate unique talents or capabilities and wish to continue their learning beyond that available at their local school are currently available in many other states. To achieve this goal in Oregon would require a state policy obligating each high school to develop a coordinated program of accelerated learning with one or more local community colleges and four-year institutions.

- *Better Integrate Technical Education in Curriculum and Instruction*. The new graduation requirements effectively do away with the old bifurcated tracks in which some students prepare only for college and some only for the trades. Standards that prepare all students for postsecondary education *and* work require both rigorous academic achievement *and* demonstrated competence in the general skills, basic knowledge, and particular technical skills that apply to occupations. Spurred by the National Governors Association, there is a new movement afoot nationally to make career technical education (CTE) a more integral component of a rigorous high school education. As an NGA issue brief puts it,

> Despite CTE's past reputation as a less-demanding track, research proves that career technical education engages and motivates students by offering them real-world learning opportunities, leading to lower dropout rates and greater earnings for high school graduates. When CTE courses also incorporate more academic rigor, research shows that student achievement significantly increases. These findings suggest that CTE should be an important aspect of a states' broader high school redesign strategy.

In Maryland, the brief goes on to note, 51 percent of students concentrating on CTE meet the state's university system entrance requirements, up from 14 percent a decade earlier.

Oregon is actually in a good position to build out CTE programs given its experience in the past decade developing Certificate of Advanced Mastery programs that give students options in exploring and preparing for career pathways while still meeting rigorous academic standards. Although the CAM does not survive in name, its best features do in school districts such as David Douglas, North Clackamas, and McMinnville[*], which provide models for successful CTE programs that could be adopted by other districts.

3. ***Improve cooperation and communication among PreK-20 institutions, workforce organizations, and employers in implementing high school graduation standards and meeting the job skill requirements of career fields, particularly high-demand occupations that pay well and buoy the economy.*** This is a corollary to the CTE recommendation above. If Oregon hopes to achieve its ambitious attainment vision, to implement its high school graduation standards, and to turn out graduates who are ready for further schooling and work, the stakeholders pursuing these outcomes must do a better job of working together. The education strategy and the workforce strategy must become one and the same, which is not now the case. Pieces of the two efforts touch at points, but the connection is not seamless.

4. ***Remove the financial barrier to postsecondary education for all Oregonians.*** Business leaders believe that Oregon should pledge that every student who meets the rigorous standards of the new diploma should be *guaranteed* access to an affordable postsecondary education. Policymakers made a significant move in that direction

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[*] McMinnville High School's Curriculum Guide (available at http://www.msd.k12.or.us) provides an excellent example of progress in the area. The guide outlines curriculum pathways for a number of professions ranging from finance and accounting to health occupations and technical trades. Next, the guide spells out recommended courses, quarter by quarter, from ninth to twelfth grade, including postsecondary coursework. The guide clearly outlines why particular courses are relevant, how courses build upon one another, and how other core academic work complements a professional specialty. Consequently, students at McMinnville High know: why related coursework is relevant, how they can jumpstart their college experience, what they can expect to earn if they follow a particular career path. Good work like McMinnville's is going on across the state, turning the high school years into a rigorous, relevant, and rewarding experience for more students.

through the Oregon Opportunity Grant and its "shared responsibility" approach. The grant reflects a partnership between working students, parents, and state and federal governments to meet college costs. The 2007 Legislature approved a major expansion of the grant program – more than doubling the resources available for state-funded grant aid.

Business leaders applaud the great beginning but call on the Legislature to make additional funding a priority in the 2009 Legislative Session. Oregon should aspire to levels of need-based aid delivered by our West Coast neighbors. In 2005-06, Oregon's need-based aid per undergraduate FTE student was $223 compared with $695 and $514 in Washington and California, respectively.

5. ***Prepare a unified, transparent, student-centered budget, PreK-20, for review by the 2009 Legislature***. The Governor and the Legislature have made a commitment to create a unified, transparent, student-centered budget model to help shape priorities and make more effective public investments in PreK-20 education. As noted earlier, that will be taken up by an Education System Design Team authorized and funded in the 2007 session through HB 3141.

For years, Oregon has been making the vast majority of its public education investment through blanket funding of K-12 school districts, community colleges, and state universities (a smaller amount goes to the Oregon Student Assistance Commission and the Oregon Opportunity Grant program). Rather than *funding institutions*, the new system should *invest in education services on behalf of students*. 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. The new approach will ask: How many students need services and what would it cost to provide programs to achieve a certain level of performance?

This budgeting overhaul, which will be taken up by the design team authorized in HB 3141, grows from a policy analysis recommended by the last Business Plan and shaped in

UPDATE: DRUG-FREE WORKFORCE

The Workdrugfree Employer Task Group has made progress on four recommendations in last year's Business Plan:

Mount a statewide campaign to triple the percentage of drug-free workplaces by 2008.

- Pilot sites have grown from three in 2006 to 14 in 2007.
- The workdrugfreeoregon.org website was launched, featuring pilot site efforts, photos, success stories, and media coverage.
- The task force is planning a 2008 survey to measure employer progress in expanding drug-free work programs.

Raise legislative awareness of the impact of drugs on business competitiveness.

- The 2007 enacted statutory protections of employers to implement drugfree workplace programs.
- A January 2008 policymaker conference will raise awareness about substance abuse, workplace safety, and business competitiveness.

Help the Workforce Investment Board establish a substance abuse prevention standard for job seekers.

- The board approved a policy applicable to all WorkSource Oregon agencies along with an implementation plan.
- Policy implementation, begun in late 2007, will continue in 2008.

Help the Oregon Board of Education create a career-related learning standard to prepare students for jobs in a drug-free workplace.

- Drug-free workplace expectations were incorporated in Oregon's new high school diploma standards adopted by the Legislature in 2007.
- In 2008 several large school districts will offer Workdrugfree employer-delivered presentations as a career-related learning experience.

a policy paper in 2007 by a group of the state's education budget experts The paper recommends a new budgeting framework that will:

- *Introduce a unified and comprehensive picture of PreK-20 education revenues and expenditures at the beginning of the legislative process*, accounting for all revenues available to spend on public education, determining which expenditures relate to instruction and which don't, and identifying what the state is spending or intends to spend in program categories on a per-student basis.
- *Link student progress and system performance to budget development*, building a common understanding of performance expected by the PreK-20 system
- *Create a common understanding of emerging trends, budget drivers, and assumptions underlying the budget*, utilizing improved database and forecasting tools.
- *Streamline, simplify, and standardize budget building methods across the education continuum*, utilizing one set of budget rules, expanding the State School Fund budget system to the whole education continuum, and organizing the Ways and Means process around students rather than systems or institutions.
- *Increase budget transparency and communication among the stakeholders*, a process that will be helped by cohesive data, rules, and performance expectations.

6. ***Advance work on a seamless, engaging PreK-20 curriculum and integrated student data system***. Oregon continues to make progress on key system improvements advocated in this and earlier policy papers of the Oregon Business Plan, especially integration of curriculum and student and school performance data.

    - *A Common Curriculum***.** The Boards of Education and Higher Education are establishing curriculum standards, proficiencies and assessments, and aligning them across the continuum. Curriculum and instruction must be designed at each level specifically to prepare students for the next level, particularly at the most difficult transition points, such as middle school to high school, and then high school to postsecondary studies and training. In the range of grades from 10 to 14, not only should the curriculum be rigorous, relevant, and aligned at every phase, it should be available to students at the pace that they learn and progress. In high school, all students must meet the minimum rigor of the diploma requirements in essential skills and academic credits, but also career learning experience. Some students will want to go beyond those requirements, with additional study in Advanced Placement, International Baccalaureate, career technical education pathways, or a combination of these advanced learning programs. High school students in particular should be well prepared for what they will encounter at the next level (whether school or a job), and in many cases, especially for juniors and seniors, advanced learning should be made available to them while they are still in high school. For example, dual high school-community enrollment, which now benefits many students, should be expanded even more.
    - *An Integrated Data System to Track Student Progress***.** Oregon has been working several years to create 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 needed to improve the movement of students along their chosen pathways, but it also represents the down payment on a much larger

commitment to improve and integrate data systems across the education spectrum in Oregon. If Oregon does this 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.

A significant part of this effort is the student plan and profile, which will help students map the path to their education goals and track their progress. This part of the data system will also provide information on higher-grade requirements for lower-grade students and their parents. With this capability, students and their parents can see the full range of curriculum and assessment requirements along the full length of the pathway. 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 is proceeding 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 in the Portland, Beaverton, Hillsboro, and Eugene 4J school districts. 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.

Targeted Interventions

1. ***Respond to pressing industry needs.*** Oregon should focus on high-demand, high wage occupations. The 40-40-20 vision is a long-term plan designed to address the state's educational and economic needs across multiple generations. But, Oregon industry also has clear needs over the next five years. To address the immediate needs, business leaders call for a manufacturing workforce initiative connected to high school, community college and university for entry, technical and managerial occupations. The state should also make continued investments in engineering, through the Engineering and Technology Industry Council (ETIC), in pursuit of its goal of doubling the number of engineering graduates and increasing engineering research five-fold. These investments will ensure that Oregonians have the opportunity to pursue rewarding technical careers and that Oregon industries have greater access to the talent they need to innovate and compete in the global economy. Finally, Oregon community colleges and universities should continue to develop curriculum that aligns with needs in Oregon's emerging green industries such as renewable energy, energy efficient buildings, and environmental technology and services.

2. ***Invest in K-12 practices validated by rigorous research.*** Business leaders applaud the 2007 Legislature's restoration of K-12 funding, but are convinced that an undisciplined expansion in spending stands little chance of improving achievement. Across the United

> …over the past 30 years the United States has made almost no progress in raising the achievement of elementary and secondary school students, according to the National Assessment of Educational Progress, despite a 90 percent increase in real public spending per student."

The Coalition points to a shortage of evidence-based education policies as the key reason the country has not seen stronger progress on achievement. The problem is two-fold. First, districts and states have lacked a willingness to rigorously evaluate education programs, so the knowledge base on what works in a K-12 context is relatively thin. Second, districts and states have underinvested in the few areas where solid research exists.

Oregon should direct resources from K-12's School Improvement Fund to three K-12 interventions that have met the research "gold standard": achievement gains proven through an experimental trial that included carefully designed treatment and control groups and solid tracking of student outcomes. Those are:

- *One-on-one tutoring in K-2***.** Proven approaches include the tutoring programs embedded in the *Success for All* (SFA) program, the Lindamood Phonemic Sequencing curriculum, and Oregon's Start Making a Reader Today (SMART) program.
- *K-1 class size reduction.* The Tennessee Student/Teacher Achievement Ratio project, or Project STAR, randomly assigned students and teachers to large and small classes. Students in STAR's small classes – 15-17 students – performed better than students in regular and regular/aide classes in all locations and at every grade level.
- *Monitors for students at risk of dropping out of high school.* Rigorous research points to only one intervention as being successful in reducing high school dropout rates. The Minneapolis-based Check and Connect program increased the likelihood of completing high school by 18 percentage points – 61 percent of Check and Connect participants completed high school or a GED compared with 43 percent of control group students.

The list of evidence-based practices will change over time as new research becomes available. Consequently, policy makers should monitor spending priorities and consider adjusting them each biennium based on the latest research.

3. ***Investigate professional career enhancement models, including new career paths, professional practice and compensation models for teachers*** A broad consensus exists among policymakers, academics, and the general public that the key to lasting education improvement starts with excellent teachers. The seminal study on teacher quality estimates the difference between having a good teacher and a bad one equates to one grade level's worth of achievement gains. And a recent study argues improving teacher quality is among the most cost-effective ways to improve student outcomes.

   But the near-term challenges of attracting and retaining high quality teachers will be manifold. A disproportionate share of teachers are age 45 or older and will transition into retirement during the next two decades. Moreover, when schools attempt to replace those educators, they will face much stiffer competition from other professions for skilled workers than they did when teachers in those age cohorts were first hired in the 1960s, 1970s, and 1980s.

For education to successfully compete with other professional occupations for skilled talent, schools will have to reward teachers more like professionals. The salary models in Oregon schools – like many across the country – rely almost exclusively on teacher's seniority and education level. Researchers have concluded that neither experience nor the attainment of a master's degree is a strong predictor of quality. Experience matters in the early years of a teacher's career, but its importance weakens over time. Moreover, the attainment of a master's degree in specific subjects (e.g., mathematics) may correlate with higher student achievement, but when measured across all teachers and all types of degrees, the average master's degree shows no correlation with achievement.

To address the shortcomings of the existing career path and compensation models, school districts should consider new career pathways and salary schedules tied to skills, knowledge, and responsibility. Teacher unions, administrators, and school boards in the Sherwood, Forest Grove, and Tillamook school districts are working through the complex transition to better compensation through Chalkboard's CLASS project. As lessons emerge from those districts during the next few months, other Oregon districts should follow their leads and reform compensation policy.

4. ***Revamp K-12 teacher professional development***. Researchers agree improving teacher quality is the most effective and efficient way to boost academic achievement and believe rigorous professional development can play a key role in strengthening teaching practices. Yet, in Oregon, little is known about what's delivered and what's gained through professional development activities. Professional development is highly decentralized, with the most important work conceptualized and undertaken at the school and classroom levels. Fiscal accounting of the investment is incomplete, and officials struggle to evaluate outcomes.

   With the new diploma standards on the way, teachers will need to retrain and retool to help students meet the higher expectations. The state should play an active role in creating a foundation of support for local professional development activities. The state should adopt and disseminate professional development standards, provide resources to small and remote districts that don't have equitable access to resources, and serve as a clearinghouse of specific practices proven to change teaching practice and, more importantly, improve student achievement. In a recently completed study of professional development in six Oregon school districts, the Chalkboard Project found that teachers and administrators want and need more high quality professional development to assure teaching and learning that translates into higher student achievement.

5. ***Support innovative workforce development models.*** The business community recognizes that many adults today do not have uninterrupted 2- to 4-year timeframes to commit to postsecondary education. If Oregon is going to meet the global skills challenge, the postsecondary system must incorporate small learning modules to enable progress while working. The nationally recognized Oregon's Career Pathways model is worthy of expansion. This innovative approach provides an array of short-term, postsecondary certificates linked to in-demand occupations, with employers actively involved in curriculum development. The model works with students in discrete steps – from remediation to technical competency to postsecondary attainment and

employment. The Pathways model deserves a focused, multi-year state investment with rigorous evaluation and follow-up dissemination.

Next Steps

This agenda will succeed only with broad support from citizens across the state. Today, too many Oregonians remained unconvinced that education and skill attainment are critical to the state's economic success. So, before policymakers proceed with these ambitious proposals, they first must fine tune their PreK-20 vision and then persuade Oregonians that postsecondary education is the key to individual and collective economic opportunity. To start on that critical work, the Governor should convene a statewide Education Summit in 2008 and then engage the public to refine the education vision and earn their support.

Education and Workforce Initiative Leaders

Eileen Drake, PCC Structurals, Inc.
Sam Brooks, S. Brooks & Associates

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4. HEALTH CARE

SUMMARY

In order to lower health care costs, improve quality, and expand access to care, the Oregon Business Plan recommends that business take a leadership role in the following:

- Use ***value-based purchasing*** strategies by employers and public sector purchasers to improve quality and lower costs.
- Encourage investment in ***health care information infrastructure.***
- Develop a comprehensive reform plan to ***improve access*** to quality, affordable health care and coverage for all Oregonians.

Vision

We support actions to give all Oregonians access to quality healthcare. 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

As described in previous Leadership Summits, 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 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.

ACCOMPLISHMENTS TO DATE

- ✓ Supported the work of the Oregon Coalition of Health Care Purchasers (OCHCP) to encourage employers to use more effective health benefits purchasing strategies, including the use of a common RFI (“eValue8”) to gather information on cost, quality and service levels from health plans.
- ✓ Developed a proposed operational and funding plan to establish a pilot project to enhance the exchange of health information among providers
- ✓ Supported the Aligning Forces for Quality initiative to develop and use improved quality measures.
- ✓ The Healthy Oregon Act (SB 329) was passed by the legislature in June. The goals, principles and approach were largely consistent with the plan for a comprehensive redesign of the health care system that was presented at the 2007 Leadership Summit.

Why is this important for businesses and all Oregonians? 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.
- Contributes to poor employee health, which hurts productivity.

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

The lack of *access* to coverage for many Oregonians is unacceptable in our society, and the costs of caring for the uninsured are shifted to those who have insurance, putting an additional cost burden on businesses and individuals.

In brief:

- We have a *serious* problem. The health care system is badly broken and needs fundamental change – the status quo is unsustainable.
- The inadequacies in the health care system are seriously impacting the productivity and competitiveness of Oregon businesses.

Inadequacies in the health care system are seriously impacting the productivity and competitiveness of Oregon businesses.

Businesses throughout Oregon must take a leadership role to address these problems and develop long-term solutions. In January 2007, the OBC Health Care Task Force developed a proposal for comprehensive reform, which was presented at the Oregon Business Plan Leadership Summit. During the next 18 months, there are three critical priorities:

- ***Value-based Purchasing*** – to improve the cost-effectiveness and quality of the health care system
- ***Health Information Technology*** – to encourage the development and use of health information technology and infrastructure
- ***Health Care Reform*** – to develop a comprehensive and sustainable reform plan to improve access to quality, affordable health care and coverage

In this effort, we should adhere to the principles described in the January 2007 Oregon Business Plan proposal, especially the following:

- All stakeholders, including business, must accept their responsibilities for improving the system.
- Cost, quality and access must all be addressed to achieve long-term sustainability.

What Action Can Be Taken Now

1. ***Use Value-Based Purchasing to improve value, i.e., higher quality and lower cost.*** Employers should:
   - Encourage a culture of wellness and personal responsibility.
   - Design benefit plans to improve health, including coverage of preventive services, management of chronic conditions, protection from catastrophic costs, and incentives for wellness.
   - Create an effective market for health care: consumer choice of health plans, better consumer information, and appropriate consumer cost sharing.
   - Develop clear and consistent expectations and incentives for health plans and providers to encourage higher quality and use of evidence-based care.

- Participate with the Oregon Coalition of Health Care Purchasers to access tools to develop and evaluate the effectiveness of your business's health care strategy.

2. ***Support efforts to encourage development of health care information infrastructure***. Key elements include:

- adoption of electronic medical records
- secure exchange of health information among providers
- standardized measures of quality, and transparent information on costs and quality that can be used by consumers, providers and purchasers.

3. ***Support efforts to develop a comprehensive plan to improve access to health care and coverage.*** Key elements include:

- Expand the Oregon Health Plan 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.
- Strengthen the current employer-based system to ensure continued coverage for the majority of Oregonians.
- Determine a long-term financing strategy.

Health Care Initiative Leaders

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

Background Resources

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Oregon Business Plan Policy Playbook and Initiative Guide (Ch. 6 – Health Care), January 2007.

OBC presentation to the Oregon Health Fund Board, "A Responsible Plan for a Sustainable Health Care System", October 30, 2007.

5. 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:

- Ensure the success of the seven Oregon InC initiatives included in the 2007 Innovation Plan.
- Continue the commitment to accountability and transparency for each of the 2007 funded initiatives and future innovation recommendations.
- Leverage existing Oregon capital to increase deal flow in the state and promote business formation.
- Align the three Oregon signature research centers with additional economic development efforts to benefit the Oregon economy.
- Continue to work on streamlining statewide university-commercial technology transfer.

Why Economic Innovation is Critical to Oregon's Future

Throughout the course of human history, people have found new ways to meet their needs by inventing, applying and trading new technologies. But recent advances in telecommunication technologies along with the global shift toward open, market-based economies have made innovation the critical factor for economic success. We can no longer afford to make a distinction between "high tech" and "low tech" industries – every industry can and must use ingenuity and technology to add value, streamline operations, and develop competitive goods and services.

ACCOMPLISHMENTS TO DATE

- ✓ $9 million in continued funding for ONAMI
- ✓ $5.25 million to launch OTRADI, which will focus on infectious disease research and drug development
- ✓ $2.5 million to launch Oregon BEST, the bio-economy signature research center
- ✓ $4.2 million investment in the Oregon Wave Energy Trust
- ✓ $3.432 million investment in food processing
- ✓ $900,000 investment in seafood
- ✓ $2.872 million investment for manufacturing competitiveness
- ✓ Passage of SB 579 which expands the scope of the Oregon Growth Account
- ✓ Passage of SB 582 to modify and launch the University Venture Development Fund

To help enhance Oregon's position in the global economy and stimulate innovation throughout the state, the Governor and Legislature created the Oregon Innovation Council (Oregon InC) in 2005. Oregon InC recognizes that economic development in today's economy is about cultivating economic ecosystems. States, cities, and regions all over the world compete with one another to grow and attract talent, inspire new ideas, aggregate key resources, catalyze new businesses, and invent new industries. For Oregon, as for its competitors, innovation – the ability to find new ways to deliver greater value – is the critical success factor for the 21st century.

Oregon is competing against countries offering low wages and infrastructure costs, aggressive economic incentives, and a seemingly unlimited supply of world-class talent. Oregon competes against states offering moderate labor and infrastructure costs while still enabling easy access to large American markets. While Oregon has come a long way in increasing its economic innovation, we still need to find new and better ways to capitalize on our unique assets and core competencies.

Economic Innovation and Sustainability

In developing the 2007 Innovation Plan, Oregon InC sought to identify high-leverage initiatives in industries where Oregon has a unique competitive advantage and for which there are – or are expected to be – significant global markets. Although the initiatives span a wide variety of industries, they each share an important theme: sustainability as a core Oregon advantage.

The Council's definition of sustainability includes industries, products, policies and companies that thrive in resource-constrained environments, incorporate renewable practices in their businesses, and produce products that strive to achieve minimal resource consumption.

Oregon InC recognizes that sustainability is one of Oregon's biggest growth opportunities and leverages this state's unique assets and ethos. Oregon is poised to be the leader in sustainable products, practices, and expertise. Oregon InC believes that by incorporating sustainability into the state's economic innovation we can enhance Oregon's position in the global economy. That's why sustainability is woven directly and indirectly through every initiative and the entire Innovation Plan package.

Opportunities and Challenges

2007 was a banner year for Oregon InC. After spending 10 months vetting industry and university-sponsored initiatives, the council recommended two policy initiatives and seven industry-university initiatives. These recommendations were embraced by the Oregon Business Plan. The Governor recognized the package as a key element of the state's economic development agenda and included full funding in his 2007-09 budget. In June 2007, the Legislature passed funding for the Oregon InC package at $28.2 million. This represents the largest investment in innovation-based economic development in the history of the state.

The efforts of the Council have created a fundamentally new way to structure economic development in Oregon. The recommendations provide a balanced statewide portfolio with individual innovation initiatives selected on the basis of their ability to leverage Oregon's unique competitive advantages in global markets and their likely effects on Oregon employment by type, incomes, revenues and the timing and rates of these returns. And, the plan was developed by the senior leadership of Oregon's universities, major businesses, venture capital community, and selected government entities, all of whom were fully engaged in the process.

Both the public and the Legislature are beginning to recognize and value the Oregon strategy of identifying and investing opportunities in the unique niches where our industries and research institutions have an advantage.

The impact of Oregon InC is beginning to be felt throughout the state. The Legislature's $28.2 million appropriation is an important indicator that Oregon's leaders are at a turning point in how they view the state's economy and its prospects in the global market. It indicates that both the public and the Legislature are beginning to recognize and value the Oregon strategy of identifying and investing opportunities in the unique niches where our industries and research institutions have an advantage. It also demonstrates Oregon's ability for cross-institutional collaboration that enables us to seize global opportunities far more quickly and successfully than might be expected by a state of our size.

While Oregon InC has helped the innovation economy over the past two years, Oregon still faces the traditional barriers to innovation. 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 all pose competitive challenges that Oregon's private- and public-sector leaders must continue to address.

Where We Are Now; Where We Want To Be in Five Years and Beyond

As Oregon InC moves forward, the Council recognizes that its continuing success will be tied to the success of each of the initiatives included in the Innovation Plan, as well as the ability of the Council to demonstrate to the Legislature exactly what the state's investment is buying. The success of each initiative will be demonstrated by the amount of federal and private dollars leveraged, jobs created or retained, spin-off companies created, and deliverables met.

In order to ensure the success of the initiatives, the Council has established an Audit and Accountability Committee that will evaluate each of the proposals on a quarterly basis to evaluate the progress of the initiatives and milestones and report back to the Council. The Council will report on these milestones to the legislature on a regular basis via hearings with interim legislative committees and in the annual report required by statute in the "off-years" between biennial innovation plans. The milestones for each initiative have been developed in collaboration between Oregon InC and the initiative leaders.

In addition, Oregon InC is developing a disbursement process that will ensure that funding is distributed in accord with demonstrated progress toward established milestones. Rather than transferring the full funding amount up-front to the initiative groups and then requiring a subsequent refund if performance measures are not met, the Council will closely oversee each of the initiatives and (working through OECDD) will disburse funds in "progress payments" over the course of the biennium as milestones are met. The Council also has the ability to suspend or terminate funding if the initiative is not making progress toward its defined milestones.

The high level of transparency and accountability that Oregon InC has embedded in the establishment and development of the initiatives will ensure success and eventually lead to the ability of the initiatives to stand on their own, allowing the state to move on and invest in other promising innovations. Oregon InC will continue to evaluate proposals and seek new investments; however, the top priority for 2008 is to ensure the success of the current initiatives.

As we look farther into the future, Oregon InC's role does not diminish. The Council is required by state law to develop and recommend to the Governor and Legislature a plan for innovation-based economic development every two years. Through the development of this biennial strategy, Oregon InC will continue to provide Oregon's leaders with insight into the competitive trends and global markets that shape the state's economic future. The Council also represents a valuable private-sector-led resource to thoroughly evaluate and hone proposals before they reach the Legislature, helping to ensure that the state invests its limited resources in initiatives that will generate the highest economic return.

The hallmark of Oregon InC is – and will continue to be – accountability and transparency. In order to sustain the success of Oregon's innovation agenda, it will be critical to widely communicate the progress and results of the current Innovation Plan initiatives along with any new ideas that come forward in the future. With continued support from the state, Oregon InC will be able to introduce new ideas and high-leverage initiatives to provide Oregon businesses with the ability to innovate and stay competitive in the rapidly moving global economy. Oregon InC must continue to anticipate the next wave so Oregon can become – or stay – successful in the future.

Hallmarks of Oregon Inc are accountability and transparency – and the expectation that Innovation Plan initiatives will become self-sustaining.

Another important element of the long-term success of the current Innovation Plan initiatives is their ability to achieve self-sustainability. In the Oregon InC investment model, the state provides seed funding to help initiatives get off the ground. This seed funding carries with it the expectation that the initiatives will leverage the initial state investment with other sources of funding and develop business models that diminish and ultimately eliminate the need for continued state funding. Indeed, the Council's evaluation criteria for each of the initiatives included the ability of the initiative to leverage federal, private, and foundation funding and the ability to become self-sustaining over time. Although the Council recognizes that state seed funding is a key and necessary ingredient for the success of these initiatives, Oregon InC is not aiming to create new entitlement programs and believes firmly in the importance of leverage.

It is important to note that each of the initiatives included in the Oregon Innovation Plan are on their own path towards funding stability. As we have seen with similar state-launched research initiatives in other states, these are multi-year initiatives that require sustained investment over several biennia to build the R&D capacity necessary to generate next-generation technologies that will be commercialized by Oregon entrepreneurs and companies.

2008 Agenda

As stated above, the primary goal for the 2008 agenda of Oregon InC is to ensure the start-up success of its initiatives through oversight and mentoring. In 2008 the Council will also prepare the Innovation Plan for the 2009-2011 biennium. Oregon InC will solicit proposals from both the currently-funded initiatives and new initiatives and will evaluate and vet the proposals through the rigorous process that has been established.

The Council will be taking the lead role in a few areas:

- Working to leverage existing Oregon capital to increase deal flow in the state
- Aligning the three Oregon signature research centers with additional economic development efforts.
- Working with Oregon's public- and private-sector partners to further streamline and facilitate successful university-commercial technology transfer.

These three key areas will incorporate much of the new work of the Council in 2008. The Business and Capital Formation subcommittee of Oregon InC will be working to help identify and leverage the existing entities within the state that provide capital to Oregon start-up companies. Oregon is a small state that unfortunately doesn't have an endless supply of venture capital or early seed funding, so we must identify capital sources within the state and help form a pipeline for companies hoping to make the shift from start-up to success.

To ensure the success of the three signature research centers and their contribution to Oregon's economy, Oregon InC must continue to encourage the signature research centers to align their work with other economic development efforts within the state. If the research being performed in ONAMI, OTRADI, and BEST does not benefit companies within the state, there would be little to no effect on Oregon's economy. ONAMI has done an excellent job of focusing its research in areas where Oregon companies have a core competency. In turn, the technology coming out of ONAMI is beginning to have a positive effect on the Oregon economy.

Throughout the development of ONAMI a key commercialization challenge was exposed: negotiating ownership and licensing of intellectual property developed by teams comprising multiple Oregon universities and private-sector firms. Oregon InC will continue to address this issue and work to create a more seamless system so that technology being developed within the Oregon InC initiatives will have a fast track to commercialization and thus, a positive effect on the Oregon economy.

While all three of these issues are essential to economic innovation in the state, the key area of work for Oregon InC will be to ensure the success of the 2007 funded initiatives. Oregon InC will be able to provide a framework for healthy innovation only if we continue to make accountability and transparency the foundation of our work.

How You Can Help

The next year will be crucial for communicating the message and success of Oregon InC. While we have made great strides in this regard, there is still more to do. The members of the Oregon Leadership Summit can help by spreading the message about Oregon InC. The investments that the state has made are already beginning to reap rewards for the economy and the audience can help to send this message to legislators, community groups, business associations, and the media. If you are interested in learning more about Oregon InC or becoming an official spokesperson for the Council, please contact our office and get involved: www.oregoninc.org.

Economic Innovation Initiative Leaders

David Chen, Equilibrium Capital; Chair, Oregon InC

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 (December 2003)

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

6. TRANSPORTATION

SUMMARY

The Stakes. Oregon depends greatly on a transportation system that has served us well in the past but is not keeping pace with current and evolving needs driven by growth in our population, economy, freight and commuter demand and environmental goals. In our highway and road system in particular, we are falling behind in maintenance and modernization at a time when congestion is rising, threatening our quality of life, our economy, and our ability to achieve important goals in sustainability.

The Problem. Rising ***highway*** congestion ranks among our most pressing problems. As two recent congestion studies indicate, vehicle congestion delays movement of freight and people and it jams connecting transportation modes such as air and marine freight and local streets. This, in turn, produces a chain of negative impacts statewide, including higher business costs and lower competitiveness. Without intervention, the studies say, statewide congestion in 2025 will increase by 42 percent overall – and 54 percent for trucks. This travel delay in 2025 will cost Oregon's economy and its citizens one million hours of travel delay per day at an annual cost of $1.7 billion and 16,000 jobs. Apart from highway congestion, other modes of transportation also need attention. In concert with road maintenance, modernization, and efficiencies, these modes can help relieve congestion, improve overall transportation service, and reduce the system's environmental impact.

The Vision. To promote a successful economy, to maintain quality, livable communities, and to shrink our environmental footprint, Oregon must begin ***now*** to accomplish the following strategies:

- Take care of the transportation system we have.
- Make this system work better, in particular by optimizing capacity and safety.
- Invest strategically in new capacity.
- Put reliable funding mechanisms in place that pay for such investments.
- Better integrate transportation with our goals in land use, economic development, and sustainability.
- Better integrate the transportation system across jurisdictions, ownerships, and modes.

Recommendation. Oregon should pursue investments in its transportation simultaneously along three tracks.

- ***Track 1. Immediately take care of highway system maintenance and high-priority modernization and capacity enhancements.*** Over the next 12 months, all Oregon parties – business, state and local governments, and advocacy groups – should prepare an annual transportation funding package for the 2009 legislative session that identifies critically needed infrastructure projects, along with cost-benefit analyses. Fund this investment with an increase in the gas tax, with vehicle registration fees, or both, with commensurate increases in the weight-mile tax. The Oregon Business Plan proposal submitted in 2007, which should be updated for subsequent inflation and cost increases, provides a template for shaping that package.

  Track 2. Step up attention to and resolution of the bottleneck at Interstate 5 where it crosses the Columbia River. Extreme and growing congestion at the crossing not only hurts adjacent regional and state economies, it also impedes critical interstate freight movement north and south, east and west.
- ***Track 3. Launch a more fundamental, far-reaching review of transportation delivery and financing,*** by a widely representative blue-ribbon task force working with legislators, local governments, and state transportation officials on studies and pilot projects to inform panel deliberations and proposals for the 2009 Legislature and beyond. It should consider:
  - The adequacy of road, rail, marine, and air transportation systems, their integration with one another, their relation to land use and urban design, and their role in achieving Oregon's economic, social, and environmental goals, including reductions in greenhouse gas emissions.
  - The roles and responsibilities of city, county, state, and federal jurisdictions in transportation system upkeep, operation, and coordination.
  - A new public transportation financing system to replace or supplement the gas tax and other revenue sources. This should incorporate demand management as a strategy for reducing congestion and system cost.

Federal Agenda. Work with Oregon's Congressional delegation to support strategic and sustained federal investments in transportation infrastructure in Oregon, as well as policies that promote transportation efficiencies. In particular, stabilize the Federal Highway Trust Fund, re-authorize the timber safety net, keep Columbia River channel deepening on track, pursue long-range replacement of the Columbia River jetty, and work with state-level interests to resolve problems with regional freight rail competition and service.

Why Transportation Improvement Is Vitally Needed

Oregon's economy and its traded-sector industries are unusually dependent on the state's transportation system for competitive success and growth. Twenty percent of all jobs in Oregon are transportation dependent. Traded-sector industries are especially reliant on transportation to move freight to market. Among the 4Ps of the Oregon Business Plan, transportation has a key role in maintaining Oregon's competitive edge in Productivity in particular, but also Place and People. Reliable, efficient transportation speeds the flow of goods and services, connecting Oregon's economy to national and global markets. It contributes to Oregon's livability, environment, and overall quality of life, factors that make Oregon a magnet for talented people.

We have reached a juncture in transportation where we cannot coast on past investment and past practices.

Transportation at a Crossroads

Our transportation system has played this role dependably, but there is no certainty that it can keep doing so. Today, Oregon is living mostly off past investments in its transportation system. Recent investments, while significant and beneficial, have focused primarily on preserving the existing system and are not keeping pace with the demands of a growing population and economy. Recent Oregon Transportation Investment Act programs will soon expire, and system improvements seen under OTIA will fade away as the investment drops back to previous levels. We face a critical choice. Will we make the essential investments and changes needed to keep us competitive and maintain our quality of life? Or will we settle for gridlock, wasting our time and money stuck in traffic?

Thanks to visionary investment by previous generations, our transportation infrastructure gives us a foundation to meet evolving demands. But we have reached a juncture where we cannot coast on past investment and inherited capacity. Despite recent efforts to modernize and enhance the transportation system (see adjacent summary of accomplishments), significant parts of the system are aging, degrading, or operating inefficiently at the same time that the economy and population are growing. This is true of the entire multirmodal system, but in particular our railroads and our federal, state, and local system of roads and bridges. Not only is there a large backlog in basic maintenance and replacement needs, the road system is near or at capacity in many locations, especially in the Portland region, and vulnerable to interruptions caused by accidents, bad weather, and other incidents.

NOTABLE ACCOMPLISHMENTS

- ✓ Secured International Air Service to Mexico, Asia, and Europe
- ✓ Passed the Oregon Transportation Investment Act, to add lane capacity and repave hundreds of miles of highways and roads, and to repair or replace more than 570 bridges statewide, a process on schedule
- ✓ Increased Federal Highway Funding through the 2005 Transportation Reauthorization bill
- ✓ Secured federal funding for critical projects, such as the Columbia River Crossing environmental impact statement, and statewide bridges
- ✓ Through the Army Corps of Engineers, deepened 41 miles of the 100 miles of Columbia River channel between Portland and the Columbia River mouth; is on schedule, assuming funding, to complete the balance
- ✓ The Corps has repaired key portions of the Columbia River jetty, buying time for needed long-term replacement of the jetty
- ✓ HLaunched Mileage Fee PilotH, a funding option test program
- ✓ In 2005 Passed $100M Connect Oregon I for non-highway freight and transit infrastructure; in 2007 passed an equal amount for Connect Oregon II.

As a result, travelers and freight are running into congestion and delay more often. Unless we act decisively – and boldly – such choke points will become far more common and frequent. This will impede local commerce, delivery of goods, shipment to out-of-state markets, business growth, and our ability to attract both investment and talent.

Inadequate Funding Structure

How do we find ourselves in this situation? Apart from the transportation investments summarized on the previous page, Oregon has not been making system investments at the level needed to anticipate and meet growing demand. In particular, we lack a reliable, long-term public financing structure for our highway and road system. As described further below, there is a $1.3 billion annual gap between available resources and the needs of all our transportation modes, including $875 million for our state and local road system.

Sustainability Frustrated

Delays and inefficiencies also waste fuel and raise emissions, diminishing attainment of our goals in sustainability, in particular, reduction in greenhouse gases.* Oregon has legislatively set ambitious goals to reduce Greenhouse Gas Emissions: at least 10 percent below 1990 levels by 2020 and more than 75 percent below that level by 2050.

Although aggressive measures are underway to help reach those goals in the utility sector,** much work remains on transportation, which is responsible for 38 percent of Oregon's carbon dioxide emissions. If current trends continue, carbon dioxide emissions in the state will increase by 33 percent mainly because of increased driving. Cars and trucks sitting idle in traffic are burning dollars along with hydrocarbons. Businesses, consumers, and the environment all suffer when highways are congested and when people and goods are not moved efficiently.

POSITIVES TO BUILD ON

- ✓ Oregon has the transportation infrastructure and the geographic position to connect to the international economy.
- ✓ Our basic transportation infrastructure is a solid foundation for community livability and economic growth, providing that we maintain it.
- ✓ Sustainability practices are being implemented from farms to urban areas. The state is well-positioned to foster the development of green transportation industries.
- ✓ Communities throughout Oregon are using public transit and other alternatives that save fuel; commuting via bicycle is growing.
- ✓ Cities are planning development that expands transportation options.
- ✓ Innovative technology is already a part of several metropolitan transportation systems, and its use is spreading to other parts of the state.
- ✓ TripCheck, a statewide traveler information web site, allows travelers and shippers to plan their trips to avoid congestion and unsafe traveling conditions.
- ✓ State and regional organizations and offices provide forums for addressing the challenges.

As a cause of global warming, greenhouse gas emissions force us to look at transportation in a new way. It will be imperative for Oregon to determine the level of greenhouse gas reductions that will be needed from the transportation sector, and it to factor greenhouse gases into our investment options.

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* From Oregon Strategy for Greenhouse Gas Reductions: 1. By 2010, arrest the growth of Oregon's greenhouse gas emissions (including, but not limited to CO2) and begin to reduce them, making measurable progress toward meeting the existing benchmark for CO2 of not exceeding 1990 levels. 2. By 2020, achieve a 10 percent reduction below 1990 greenhouse gas levels. 3. By 2050, achieve a "climate stabilization" emissions level at least 75 percent below 1990 levels.

** These include the Renewable Portfolio Standard that passed through the 2007 legislature as well as the Western Regional Climate Initiative of which Oregon is a key partner.

The Crunch in System Demand, Condition, and Funding Stability

Oregon transportation is caught in the middle of dynamic and conflicting pressures. On one hand, the state has a growing population and economy that demand more of our roads, rails, air and marine ports, and transit systems; and on the other, it faces the difficulty of maintaining existing infrastructure, getting the most from existing capacity, adding new capacity, and funding both upkeep and improvements. The choices we make in addressing these tensions will determine whether Oregon withers or prospers. It's that simple. The pages below discuss this issue in more detail, drawing from conversations with transportation officials and advocates, and from recent plans and studies.*

Demands and Pressures on Our Transportation System. Oregon's transportation system is projected to experience steep growth in a variety of demands through 2030. Here are some key projections through 2030 from the Oregon Transportation Plan:

- From a baseline of 3.4 million people in 2000, Oregon's population will grow by 41 percent, reaching 4.8 million people, with nearly 60 percent of the population in urban areas along the I-5 corridor from Portland to Medford.
- Freight tonnage is expected to increase 80 percent statewide, representing a 147 percent real increase in the value of freight moving in the state. Freight tonnage will double in the Portland metropolitan region. Most of these increases will be carried by trucks.
- Vehicle miles traveled will grow 40 percent, a rate of 1.35 percent annually.
- Increases in population densities, traffic, and fuel prices will spur demand and create opportunities for public transportation in metropolitan areas; bicycle travel will also increase in these areas.
- Without interventions in the form of system efficiencies or selective addition of capacity, choke points in high usage motor corridors will get worse before they get better. Familiar areas of congestion include Interstate 5 between Tualatin and Wilsonville, the stretch of I-5 that crosses the Interstate Bridge over the Columbia River, and eastbound and westbound connections between Interstate 84 and Highway 26 at the Vista Ridge Tunnel.

In addition to these projections, the effects of climate change must be factored in as a wild card. Climate change could alter the mix of agriculture products, their destinations, and their transportation requirements. Volatile weather patterns could accelerate the severity of road conditions, battering bridges in high floods, increasing slides along mountain roads, or leaving low lying sections of coastal roads vulnerable to elevated sea levels.

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* These include the *Oregon Transportation Plan* (OTP), *Oregon's Transportation System: Critical Needs*, and *The Cost of Highway Limitations and Traffic Delay to Oregon's Economy* (Oregon cost of congestion study). The OTP is a 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. It was adopted by the Oregon Transportation Commission in September of 2006; the plan is strongly supported by the Oregon Business Plan. The critical needs paper was produced by the Oregon Department of Transportation in consultation with business leaders, public agencies, and its own commission. The statewide cost of congestion study, commissioned by the Oregon Business Council and the Portland Business Alliance, was completed in March 2007. As recommended in the January 2007 Policy Playbook, the study expands an earlier analysis of congestion impacts on the economy of the Portland area. These and additional source documents and links are listed at the end of this section.

System Condition and Congestion

Various parts of Oregon's multimodal system need attention, but none so much as our system of state and local highways, roads, and streets, whose condition and adequacy is under threat as demand and usage grow while the system itself ages.

The recent short-term surge of highway construction activity under the OTIA programs (which will peak in 2008 and 2009 before declining and then ending early in the next decade) has temporarily improved the condition of Oregon's roads and bridges. The statewide condition of highway pavement, for example, has improved from 78 percent "fair or better" in 1999 to 87 percent fair or better in 2006. Oregon has also made significant progress under OTIA in upgrading the condition of bridges. ODOT reports that 29 percent of the 2,660 state highway bridges are still rated deficient. This is a slight improvement over last year. The department expects conditions to improve in the near term as bridge projects are completed under OTIA III funding. Bridge conditions will peak in 2010, but decline as the department wraps up the OTIA bridge program and begins to pay bond debt service from funds earmarked for its bridge program.

> ***The most obvious problem for our economy and quality of life is congestion – mainly highway congestion.***

The most obvious problem for our economy and quality of life, however, is congestion – mainly highway congestion. Some of this problem has been relieved by addition of lane capacity under OTIA, such as Highway 26 from Sylvan west for several miles. Unfortunately, investment in highway expansion projects will fall as the temporary OTIA program that paid for projects like this comes to a close in the near future. Moreover, recent reductions in the funding available to Oregon's highway program will further limit the ability to invest strategically in adding capacity at chokepoints.

It's important to note, however, that not all congestion is caused by capacity limitations; and capacity additions will not always be appropriate or feasible. Even where the highway system is normally adequate to meet demand, it is vulnerable to disruption and delay from random events in high-traffic areas. Incidents such as vehicle accidents and breakdowns, roadway spills, severe weather, and construction activity frequently bring traffic to a near or full standstill, backing up roads for miles and even hours, particularly on our freeways. These incidents, which account for about half of total traffic delay, have a ripple effect, impeding the flow of goods and people both near and far, and through modes of transportation interconnected with the highway system.

Non-injury, low-impact accidents, in particular, cause more delay than they need to because drivers fail to move their vehicles immediately out of traffic. Transportation officials say that every minute a vehicle stops on the freeway backs up approaching traffic from three to seven minutes. One analysis of a typical collision in the Portland area found that it took 55 minutes for a tow truck to arrive, 17 minutes to clear the wreck, and another 33 minutes for traffic flow to return to its normal pace, paralyzing traffic for 105 minutes at an economic cost to other drivers of $150,000.

Reducing congestion caused by these non-recurring events is much less expensive than capacity expansion.

Potential Economic Damage of Congestion And other Limitations to Transportation

As these citations suggest, both the economy and our quality of life suffer when shipments of supplies or finished goods are delayed, when commuters are delayed getting to work or home, or when someone stricken in an ambulance doesn't get to the hospital on time. Businesses experience costs for additional drivers and trucks due to longer travel times, loss of productivity due to missed deliveries, reduced market areas, and increased inventories.

Highway congestion in the Portland area has become the most obvious source of travel delay. *The Cost of Congestion to the Economy of the Portland Region,* a study completed in 2005, indicates that congestion is already threatening the Portland region's economic viability. Portland area businesses report that traffic congestion is already costing them money. 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 Cost of Highway Limitations and Traffic Delay to Oregon's Economy, a 2007 study, reaches similar conclusions for the state as a whole. Not only are businesses reporting financial loss from congestion, many are changing their operations and location decisions. The study estimates that failure to invest adequately statewide in transportation improvements will result in a potential loss valued at of $1.7 billion annually by 2025 and 16,000 jobs. It equates to an additional 1 million hours of vehicle travel per day caused by congestion and delay.

While strategic investments can address bottlenecks, much of our capacity limitations must be approached in other ways, in particular smarter, more efficient use of the capacity we have.

Because congestion is showing up in so many places – and growing – it isn't likely that Oregon can rely exclusively on building its way out of the problem. While strategic investments can address bottlenecks, much of our capacity limitations must be approached in other ways, in particular by making smarter, more efficient use of the capacity we have. System optimization is also less expensive than constructing new facilities.

The statewide congestion study notes that road and highway deficiencies are not the only bottlenecks to the economy. There are also limitations to rail, air, and marine service and connections, which are critical to business needs as well. Businesses throughout the state are increasingly relying on trucks to move goods due to limitations with other modes of delivery. Firms adopting intermodal shipping to reduce costs are finding they must increase inventories due to unforeseen delays and uncertainties. While all modes are critical for businesses, the various modes are not interchangeable for business logistics and supply chain management. Improving links between the modes is particularly vital to achieve a seamless, efficient system.

Rail Service

Regional rail service limitations are also causing significant problems for Oregon businesses, many of whom rely on rail to transport their products to national and global markets. Rail service has become more costly and does not always offer the most reliable means of shipping goods, particularly goods that are time-sensitive. The large Class 1 railroads, including Union Pacific and Burlington Northern Santa Fe, have shifted to a business model that involves transporting large "unit" trains across long distances. In doing so, they bypass many communities and businesses that need to ship smaller numbers of cars. When Class 1 railroads refuse to provide service or impose large rate increases on Oregon businesses, many of these enterprises are forced to transfer their shipments from train to truck. This incurs significant increased costs that make them less competitive while it compounds the congestion problems on our highways.

Threats to business competitiveness also come from the deteriorating condition of the freight rail infrastructure. The first Connect Oregon multi-modal transportation package made a significant investment in rail projects, and it is likely that a substantial portion of the funding under Connect Oregon II will also flow to projects that rehabilitate the rail system and address capacity constraints. Despite these investments, Oregon's rail network seems to be falling farther behind, and just preserving the existing system and levels of service is proving to be a challenge. In recent months short-line railroads have halted service on two lines (the Bailey Branch Line in Benton County and the Coos Bay Line from Eugene through Coos County) due to safety concerns that have arisen as the lines have deteriorated due to lack of investment. Halting service on these lines has led to significant problems for shippers who must find alternative – and more costly – means of getting their products to market. Because of concerns over the condition of Oregon's rail system, ODOT's Rail Division will be undertaking a significant study of the conditions and needs of rail lines. The report should serve as a basis for determining how the state and private sector can partner to preserve the critical components of the rail system.

Marine Transportation

Columbia River commerce is estimated to range between $16 billion and $18 billion per year, with 2,000 ships crossing the bar at Astoria, many of them connecting with cargo from barges that reach as far inland as the Snake River system. Two infrastructure issues are central to this commerce: deepening of the 100-mile channel from the Columbia River bar to Portland, and keeping the river's jetty in working order.

The channel dredging project is well under way, with 41 miles of the inland waterway now at 43 feet or more, a depth that accommodates large ocean vessels. Marine officials are pleased with the progress but mindful that timely federal appropriations will be needed in the next two phases of the project to stay on schedule and budget. The federal government is funding almost two-thirds of the $150 million project, Oregon and Washington, the balance.

The Columbia River jetty, which protects a navigable channel across the bar, is 125 years old in some places and in danger of falling apart without intervention. A mile of the south jetty, once six miles long, has disappeared. In 2006 Northwest delegates appropriated funds for the Army Corps of Engineers to repair broken sections, extending the

CURRENT HIGHWAY FUNDING

Oregon collects State Highway Fund revenue through motor fuel taxes, vehicle registration fees, title fees, driver license fees, and the weight-mile tax for heavy vehicles. The State Highway Fund is a shared resource for the state highway program and for county roads and city streets. Other resources for highways, roads and streets include federal-aid highway funds (primarily for state highway) and U.S. Forest Service and Bureau of Land Management allocations, property taxes and system development charges (primarily for local roads and streets). The private sector helps build the local transportation system through subdivision development as well as pay for road construction and maintenance through local taxes and system development charges.

jetty's service another ten years. But in the long term, the jetty is falling apart and will have to be replaced, an undertaking that will cost hundreds of millions of dollars. Congress has funded a study of the replacement project, which will be essential to Columbia River shipping and the economies of Northwest states.

The Widening Investment Gap

Historically, Oregon has supported the development and maintenance of its surface transportation system, most notably pioneering the nation's first gasoline tax in 1919 to pay for its road system. Unfortunately, that's no longer so true. Each year Oregon falls farther behind in generating the funds required to maintain and upgrade its aging transportation infrastructure. It hasn't increased its gas tax since 1993, and other revenue sources pay for only a small portion of overall needs. According to the Oregon Transportation Plan, in all modes of publicly funded transportation in Oregon, there is a $1.3 billion annual gap (in 2004 dollars) between available resources and needed public investment in our air, highway, marine, public transit and rail systems. In our stressed state and local road system, the annual shortfall is about $875 million of that total. Our funding sources, such as the gas tax and motor carrier fees, are not indexed to inflation, so they have been producing a diminishing share of needed revenue. Right now, they meets only 27 percent of what we need to maintain existing service. In the next 25 years, these revenue sources, if left in their current form, are expected to lose 40 percent of their already-diminished purchasing power. This means they will meet an even smaller fraction of our funding requirements.

Funding Alternatives

Oregon can employ a range of funding options to pay for its transportation needs. An increase in the gas tax is one practical short-term solution (one cent raises $29 million annually). Washington recently passed a transportation funding package through an increased state gas tax that will produce approximately $9 billion. Other funding sources might include a higher vehicle registration fee (each $1 dollar increase raises $5.7 million annually) and a car title transfer fee (each $1 dollar increase raises $1.8 million annually). The short-term practicality and scale of the gas tax is offset by its diminishing buying power against inflation and by fuel efficiency improvements and alternative engine designs that boost vehicle mileage. To illustrate, Oregon drivers are currently paying about 1.2 cents per mile in state gas tax, a calculation based on average passenger fuel consumption of 20 miles per gallon. Newer model cars, especially hybrid electric cars, can be twice or three times as efficient, effectively reducing their payment to 0.6 cents or 0.4 cents per mile. Updated corporate average fuel economy standards in Oregon and at the national level will likely drive average fuel efficiency to around 35 miles per gallon, effectively lowering the gas tax to .69 cents per mile by 2025. These trends make it imperative that Oregon explore alternative funding sources to finance its transportation system. New technologies will soon make it possible to consider

KEY CHALLENGES AND STRATEGIC OPTIONS

Challenges

- ✓ 41% increase in population by 2030
- ✓ 80% increase in freight tonnage by 2030
- ✓ 40% increase in vehicle miles travelled by 2030
- ✓ Declining purchasing power of gas tax
- ✓ Impacts of climate change on the system condition
- ✓ State goal of reducing greenhouse gas emissions 75% below 1990 levels by 2050

Strategies

- ✓ Take care of the system we have
- ✓ Make the existing system work better
- ✓ Invest selectively and strategically in new capacity
- ✓ Put reliable funding mechanisms in place
- ✓ Improve land-use/transportation integration
- ✓ Improve mode integration within the overall system

toll roads, mileage fees, peak use pricing, surcharges for traveling in congestion-prone areas, and other possibilities. An ODOT task force has examined alternatives to the motor fuel tax and recently concluded a demonstration project for one alternative based on mileage. Metro and ODOT are exploring the possibility of pricing roads, including tolling, to fund new improvements.

The same funding mechanisms also have the potential to make system use more efficient by the incentives and disincentives they create to influence the choices drivers make about road use. For example, about two-thirds of Portland area drivers commute to work in a vehicle by themselves, contributing significantly to congestion. Time or location fees might encourage them to choose other times or routes, to consolidate trips, or to car pool as a means of reducing or offsetting fee costs.

Vision for a an Efficient Transportation System

The Oregon Business Plan endorses the strategies recommended in the Oregon Transportation Plan:

- ***Take care of the system we have***. The replacement value of our highway system alone is $27 billion. Maintaining our roads, rails, docks, airports, public transit, and related equipment on a timely basis keeps them safely and reliably in service, reduces congestion by improving efficient use of capacity, and avoids the higher expense of deferred maintenance and replacement. In road surface preservation, for instance, every dollar invested on a timely basis saves $4 to $5 later if the surface is allowed to deteriorate.
    - ***Make the existing system work better, in particular by optimizing capacity and safety***. Oregon cannot simply build its way out of congestion. The problem has grown too rapidly and is too complex for any one solution or approach. However, a great deal can be done to make more efficient use of the state's existing transportation Rapidly removing crashed or stalled vehicles from travel lanes.
    - Timing traffic signals so that more drivers see green lights and coordinating freeway ramp signals and local street signals to reduce backups to local streets.
    - Providing better information about traffic flow and about alternative routes.
    - Diversifying development patterns. Land uses and project designs should take advantage of existing transportation infrastructure or reduce pressure on infrastructure already stretched past capacity.
- ***Invest strategically in new capacity***. There are cases in which better use of existing capacity will be helpful but not sufficient to meet demand. In such cases, Oregon should make select investment in additional capacity, striving as much as possible to consider such alternatives as mass transit, either as an add-on or as a substitute for highway capacity. Alternatives to relieve congestion at the I-5 Columbia Crossing include replacing the existing bridges, adding an additional bridge, mixing mass transit (rail and bus) in both of those alternatives, or building nothing and relying on new policies to alter bridge use and make existing capacity sufficient.

    Whether congestion relief is achieved through more efficient use of existing capacity, or through the select addition of capacity, it can have significant impact in reducing greenhouse gas by improving traffic flow at optimum speeds and reducing the fuel inefficiencies caused by idling and stop-and-go movement*.

- ***Put reliable funding mechanisms in place that pay for such investments***. Oregon's current transportation funding system is a dead end. Left in place, it will pay for less and less as demand increases and the costs of maintenance and new construction rise with inflation. As a short-term measure, Oregon should increase existing revenue sources such as registration fees, the gas tax, and weight mile fees with the idea of phasing out the gas tax in favor of more adequate funding mechanisms of the kind suggested above.

- ***Better integrate transportation with our goals in land use, economic development, and sustainability.*** Many tools exist to achieve economic goals while reducing emissions, including optimization system efficiency, mode-shifting to less carbon-intensive forms of transportation, and better integrating land-use and community planning with transportation planning.

  On the last point, we can't stress enough the importance of re-examining long-range land-use planning efforts, such as Metro's "New Look" and Oregon's "Big Look." In a later section this policy guide contains an initiative proposal to reactivate the Big Look Task Force in order to address land-use/transportation integration along with other key land-use planning challenges. Where new land is put into use or old land is recycled, land uses and project designs should take advantage of existing transportation infrastructure or they should reduce pressure on infrastructure already stretched past capacity.

  Each of these options – optimization, mode-shifting, and integration of land-use and transportation – must be done with economic, community, and environmental, goals in mind. Globalization is driving the expected 50 to 80 percent increases in freight volume over the next 20 years. The movement of this freight is key to sustaining long-term growth of jobs in Oregon and the long-term health of our communities. We must find solutions that allow for the free-flow of goods throughout the state while minimizing environmental impacts and preserving the quality of community life.

- ***Better integrate the transportation system across jurisdictions, ownerships, and modes.*** Highways, roads, streets, and multimodal facilities often lie across multiple jurisdictions, all of which have some responsibility for operation, maintenance, and improvement of their piece of the overall system. Unfortunately, governance, operation, and upkeep of these pieces are often not well planned or coordinated, to the detriment of the system as a whole. A design or capacity change made in one jurisdiction or mode, can affect system use and efficiency in another. So can operation, from signal sequencing to maintenance. SB 566, sponsored by Sen. Rick Metzger, passed in the 2007 Legislature recognizes the specific challenges facing local transportation systems in coordinating and funding vital services. The bill calls for an interim study by a joint committee on transportation of funding options, including the possible creation of transportation

* From the *Oregon Strategy for Greenhouse Gas Reductions*, page 88, 2004: "Truck and auto travel is most energy efficiency when vehicles travel in the 40 to 50 mph range without frequent stops and starts. Traffic flow can be optimized through targeted infrastructure investments, traffic signal re-timing, value pricing and investments in alternatives to the automobile."

utility districts to raise funds for regional needs. This work may generate promising new approaches to coordination and financing.

In regard to the choices outlined immediately above, specific decisions are not as appropriate or important at this stage as a commitment for Oregon to use its time in 2008 to set its priorities, identify the choices it favors, and marshal its case for the 2009 Oregon legislative and U.S. congressional sessions. That will be the work of 2008 leading to the next Leadership Summit.

Agenda for 2008 and Beyond

Oregon should pursue transportation investments simultaneously along three tracks.

- ***Track 1. Immediately take care of highway system maintenance and high-priority modernization and capacity enhancements.*** Over the next 12 months, all Oregon stakeholders – business, state and local governments, and advocacy groups – should prepare an annual transportation funding package for the 2009 legislative session that identifies critically needed infrastructure projects, along with cost-benefit analyses that consider, among other things, return on investment, statewide economic benefit, and reduction in capacity and safety problems. Oregon should fund this investment with an increase in the gas tax, with vehicle registration fees, or both, with commensurate increases in the weight-mile tax. The Oregon Business Plan proposal submitted in 2007 (appended to the end of this section) provides a template for shaping that package. That proposal recommended a $350 million annual investment, but that should be updated for inflation and cost increases,
- ***Track 2. Step up attention to and resolution of the bottleneck at Interstate 5 where it crosses the Columbia River.*** Extreme and growing congestion at the crossing not only hurts adjacent regional and state economies, it also impedes critical interstate freight movement north and south, east and west.
- ***Track 3. Launch a more fundamental, far-reaching review of transportation delivery and financing***, probably by a broadly representative blue-ribbon task force. This task force should work with both local and state jurisdictions on studies and pilot projects to inform panel deliberations and proposals for the 2009 Legislature and beyond. It should consider:
  - The adequacy of road, rail, marine, and air transportation systems, their integration with one another, their relation to land use and urban design, and their role in helping Oregon achieve its economic, social, and environmental goals. The portion of this examination dealing with land use should be carried out with regard to the deliberations of a reactivated Big Look task force.
  - The roles and responsibilities of city, county, state, and federal jurisdictions in transportation system upkeep, operation, and coordination.
  - A new public transportation financing system to replace or supplement current revenue sources. This should incorporate demand management as a strategy for reducing congestion and system cost.
- ***Federal Agenda***. Work with Oregon's Congressional delegation to support strategic and sustained federal investments in transportation infrastructure in Oregon, as well as policies that promote transportation efficiencies. In particular:

- *Stabilize the Federal Highway Trust Fund*. 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.
- *Re-authorize the timber safety net* or other means to help counties find ways to make up for lost revenue. This issue, explored more fully in the Public Finance section of this document, has a large impact on county roads as well as schools and general government operation. The one-year extension of the Secure Rural Schools and Community Self-Determination Act (PL 106-393), recently expired. Counties with large federal land holdings (and constricted tax bases) are once again vulnerable to severe revenue shortfalls unless Congress works out a long-term solution. This is an issue that everyone in the state must work to address. Otherwise, the effects will be felt throughout Oregon's economy.
- *Maintain timely phased funding and stay on schedule in deepening the Columbia River channel.*
- *Pursue needed intermediate repair and long-term replacement of the Columbia River jetty*.
- *Work with state-level interests to resolve problems with regional freight rail competition and service.*

What You Can Do

Review policies and consider opportunities and incentives to work with your employees to reduce the number of single-occupancy vehicle trips and vehicle miles travelled. Roughly 73 percent of commuters travel alone to and from work in Oregon. There are many resources available to employers and employees through government and nonprofit entities to help reduce the number of single occupancy vehicle trips (SOVs) and vehicle miles traveled (VMTs).

Transportation Initiative Leaders

Steve Clark, Community Newspapers
Patrick Reiten, Pacific Power

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 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*
- *The Cost of Highway Limitations and Traffic Delay to Oregon's Economy*
- "Freight Rail Bottom Line Report"
- "Freight Capacity for the 21st Century"

Business Coalition Transportation Proposal
(Submitted to the 2007 Session, Oregon Legislature)

[Approximate revenue generated]

January 2008
- $25 Annual Registration Fee increase (current fee $27 annual) [$142.5 million]
- $10 Per Title Transaction Fee increase (current fee $55 per transaction) [$18 million]
- 2 cent gas tax increase [$58 million]

January 2009
- 2 cent gas tax increase [$58 million]

January 2010
- 2 cent gas tax increase [$58 million]

January 2011
- 1 cent gas tax increase [$29 million]

TOTAL Approximately $350 Million per year beginning January 2012

- Index the gas tax to the Consumer Price Index to offset the effects of inflation

Note – The additional revenue raised by the fee increases above reflects commensurate increases in heavy vehicle title, registration, and weight mile fees paid by in-state and interstate trucks.

Notes:
(1) $350 Million split 50/30/20 –

- $175 million state highway program
- $175 million cities and counties
  - o $105 million county road program
  - o $70 million city street program

(2) State split supports the Oregon Transportation Plan
- Preservation and Maintenance $35 million
- Make the System Work Better - $12 million
- Freight Mobility - $70 million
- Congestion Relief - $58 million

(3) 25% ($26.25 million of county money and $17.5 million of city money) to be used for projects on those respective systems that improve freight mobility or relieve congestion on the state system. These projects are to be proposed by cities and counties in consultation with ODOT and approved by the Oregon Transportation Commission. These funds may be considered as matching funds for state and federal projects. This allocation percentage will be applied to any new highway revenues raised at the state level in the future.

(4) State and local governments will report the projects in their road or capital improvement plans that improve freight mobility or relieve congestion to the Oregon Legislature to assure alignment between government investments and the Oregon Transportation Plan.

(5) 20 percent of the Freight Mobility and Congestion Relief fund could be bonded to fund about $300 million for Freight and Congestion projects.

The Oregon Business Plan Is Grateful to the Following Sponsors

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