MEMO

To: Governor John Kitzhaber
From: Oregon Business Plan Steering Committee
Re: The Oregon Innovation Plan
Date: January 10, 2011

Support the 2011-2013 Oregon Innovation Plan

The work of the Oregon Innovation Council (and its predecessor the Oregon Council for Knowledge and Economic Development (OCKED)), has been an integral part of the Oregon Business Plan since the first Leadership Summit in 2002.

The Innovation Plan is directly responsible for at least six-hundred jobs in the current biennium and six-hundred jobs in the pervious biennium. More importantly, the investments Oregon's elected leaders have made through the Innovation Plan have leveraged significant outside resources, and planted the seeds for future high-wage job growth that will support families and the state budget throughout the next decade and beyond.

The Oregon Business Plan Steering Committee recommends inclusion of the 2011-2013 Oregon Innovation Plan in the budget you will present to the legislature in February.

For you review, we have included a two-page summary of the Plan.

Initiative leader: David Chen, Equilibrium Capital; Chair, Oregon Innovation Council

Creating The Next Generation of Oregon Jobs

Why Oregon InC?

Oregon InC's mission is to create jobs, create companies and bring outside dollars back to Oregon. It does that by harnessing private sector leadership with Oregon's universities to commercialize cutting edge research; revitalize established industries and make them more competitive; help start-ups access capital, and provide Oregon businesses with access to otherwise out-of-reach R&D labs and researchers.

What's the return on investment so far?

In only three years of funding, Oregon InC's six initiatives have captured $197.5 million in federal and private grants for the state, and are on track to generate more than $7 for every dollar the Legislature has invested so far. Oregon InC created or retained 666 jobs in the first biennium, and is on track to create or retain 616 jobs in the second biennium. It has incubated 15 new companies, and its 11 shared labs have been used by more than 227 businesses to perfect ideas as diverse as portable kidney dialysis machines and new malaria-fighting drugs.

How do I know this money is well spent?

Each initiative is audited quarterly by the Oregon InC Audit Committee, made up of private sector leaders and four legislators. If an initiative is falling short, funding can be immediately suspended or stopped. Initiatives continue only as long as they show a profit to the state.

Is this just high tech or does it help everyone?

Oregon InC's programs represent a diversified portfolio that boosts Oregon industries. Food processing initiatives have revitalized industries along the coast and in rural communities. Wave energy is creating manufacturing jobs for welders as well as boat captains and technicians along the coast. An electric vehicle initiative will need workers with manufacturing skills.

Why this in a down economy?

Innovation keeps existing businesses competitive by continually developing and improving products and services. It helps train the next generation of skilled workers. It incubates emerging industries and provides the capital they need to grow, diversifying and expanding the economy. It leverages state dollars invested with private and federal grants. And while maintaining core services now, Oregon also must invest in future opportunities that will enable it to emerge from this economic downturn stronger and more diversified.

UAV

McMinnville-based Northwest UAV is the largest unmanned aerial vehicle engine manufacturer in the U.S., producing over 4,500 engines, and a critical supplier for Boeing's ScanEagle drone.

Driven to meet new federal regulations that require a 35 percent reduction in exhaust emissions, NWUAV set out to develop a unique fuel injection system that can handle heavy jet fuels. But doing the research in-house was expensive. Without help, NWUAV would need to go outside Oregon to find the sophisticated R&D needed to improve its engines.

NWUAV used Oregon InC's shared labs in Corvallis to design a new fuel injector using ink jet technology; a prototype was demonstrated at an unmanned aerial vehicle show only 3 months after the project began. The new design promises not only increased fuel efficiency and flight times with reduced emissions – but may have applications in the lucrative home market in lawn mowers and leaf blowers.

OREGON'S R&D ADVANTAGE

Oregon InC's network of shared labs and 450 researchers gives businesses access to cutting edge R&D, clean rooms, prototyping and testing without the added cost of in-house staff or facilities. More than 227 companies have taken advantage, including companies as diverse as solar cell manufacturer Spectra Watt and industry leader Intel.

Oregon InC clients include:

SolarWorld – world leaders in solar power technology

Micro Systems Engineering – producing medical microelectronics

Hewlett-Packard – global tech company

ON Semi – semiconductor fabrication

Floragenex – developing new DNA sequencing systems

Home Dialysis+ - creating portable kidney dialysis machines.

2011-13 Oregon Innovation Plan

Oregon InC received 22 creative ideas from throughout the state for inclusion in the 2011-13 Innovation Plan. After a 3 month review, Oregon InC recommends $18.95 million in Lottery Funds be invested in a portfolio that continues Oregon's leadership in nanoscience and green building materials, clean energy and bioscience – and creates an exciting new opportunity establishing Oregon as a world leader in the design and manufacture of electric vehicles and components.

ONAMI (Oregon Nanoscience and Microtechnologies Institute)

Oregon's first Signature Research Center is now a nationally recognized collection of laboratories and researchers helping create a new generation of companies like Zaps Technologies, which uses nano-materials to test polluted waters for multiple contaminants at once rather than the current one-at-a-time method – saving time and money. ONAMI has helped start-ups raise more than $70 million in private capital.

2011-13 Request: $5.5 million

OTRADI (Oregon Translational & Drug Discovery Institute)

OTRADI is working with researchers and biotech companies in areas as diverse as oncology, neuroscience, medical devices and infectious diseases. Drug screening and analysis that once would have taken a researcher six months now can be finished in a week in OTRADI's lab. OTRADI, for instance, confirmed that the chemicals designed by PSU-spinoff DesignMedix are effective not only against malaria, but also the dangerous E. coli bacteria and Staph. Aureus – data helping DesignMedix expand operations in Oregon.

2011-13 Request: $3.5 million

IPC (Northwest Food Processing Innovation Productivity Center)

IPC is recharging an industry that employs 200,000 Oregonians, helping food processors tap into new ideas and new ways of doing business. IPC has helped create software that allows processors to meter and track water, air, natural gas, electricity and steam usage, as well as greenhouse gas emissions. It's helped Bear Creek in Jackson County (the owners of the iconic Harry & David's) evaluate its production and warehousing efficiency, and Boardman Foods in Umatilla County streamline its onion processing operations. At the end of this biennium, IPC will phase out state funding and become supported by the industry it is helping remake.

2011-13 Request: $500,000

Oregon BEST (Oregon Built Environment and Sustainable Technologies Center)

With national priorities – and funding – focused on renewable energy and green buildings, Oregon BEST research is leading to new technologies, new products and new jobs. Oregon BEST's 140 faculty researchers, for instance, are measuring the insulating capacity of high-tech paints and using recycled Styrofoam as building insulation. And Oregon BEST is helping the building industry embrace green principles, with R&D projects ranging from eco-districts to solar awnings; micro wind turbines to green roofs.

2011-13 Request: $4.5 million

OWET (Oregon Wave Energy Trust)

A 150-foot buoy about to be launched off Reedsport is the first step toward providing clean, renewable energy to thousands of Oregon homes. OWET is helping create this new industry, bringing together federal, state and local resources, while making sure coastal residents and fishermen have a voice in decision making. OWET-funded research has built a regulatory roadmap that is attracting wave energy developers from around the world. And the buoys that make it all work are providing good paying jobs not only to engineers, but to welders and sea captains, technicians and drivers along the coast.

2011-13 Request: $2.5 million

Drive Oregon

More than 40 Oregon companies are currently working on electric vehicle-related technologies, from batteries to motors, charging stations to electronic components. Drive Oregon takes advantage of this momentum by driving commercialization efforts in the clean tech, advanced manufacturing, software and high tech sectors; helping researchers and companies compete for billions in new federal grants, and leverage areas where Oregon is uniquely positioned to lead.

2011-13 Request: $2.5 million

MEMO

To: Governor John Kitzhaber
From: Oregon Business Plan Steering Committee
Re: Transportation and Infrastructure Priorities
Date: January 10, 2011

Investments in transportation and energy infrastructure provide both short and long-term benefits to the economy. In the short term the construction of the projects generates family wage jobs across the state. In the long term, these investments make the Oregon economy more efficient and competitive on a national and international level.

In community meetings across the state the Oregon Business Plan heard consistent input that greater investments in transportation and energy infrastructure are needed and supported in both urban, rural and frontier communities.

The Business Plan recommends advancing infrastructure projects that create jobs and strengthen our economic foundation in the following areas:

- Electric and natural gas transmission upgrades are crucial for enhancing reliability and for meeting goals for carbon reduction. State leadership is needed in crucial areas such as identifying key transmission corridors and expediting land use approvals for multi-jurisdiction approval processes. The December 2010 Oregon Energy Planning Report contains six recommendations developed by the Transmission Siting Review Workgroup that should move forward immediately. In addition, linear projects that don't come under the Energy Facility Citing Council jurisdiction and projects applying for Certificates of Public Convenience and Necessity need similar streamlining of the approval process.

- Adoption of the changes to the Remove-Fill permitting process proposed in 2010's SB 1020 would facilitate linear projects and other necessary infrastructure improvements in the transportation, water, energy and other sectors.

- The Columbia River Crossing addresses one of the west-coast's largest transportation bottlenecks. The 2011 legislature needs to send an unmistakably strong signal of support for this project to the federal government, the State of Washington and regional leaders. The estimated state share of the project is $450 million and legislative approval of the full amount would significantly advance the project.

- Transportations projects under OTIA need to move ahead. The state has made tremendous strides in delivering on OTIA program projects. The Business Plan received generally positive input regarding the projects around the state although there was hope expressed that the delivery time-table for projects could be accelerated with additional coordination and streamlined permitting.

- Connect Oregon IV will add to our portfolio of transportation options. The previous Connect Oregon programs have delivered significant benefit to the state's multi-modal transportation system. In these difficult budget times the Business Plan recognizes that all areas of the general fund/lottery budget will need to absorb some reductions. Nevertheless, additional investments are both necessary and provide immediate employment benefits and long term economic advantage. The Plan recommends moving forward with a significant investment through Connect Oregon recognizing that reaching the level of investment of past biennia may not be possible.

- Implementing the Oregon Freight Plan will create jobs. Oregon is the nation's ninth most trade dependent state and ranks near the top in export value growth in recent years. The Business Plan supports the goals outlined in the Draft Oregon Freight Plan of identifying, prioritizing and facilitating investments in Oregon's highway, rail, marine, air and pipeline transport infrastructure to further a safe, seamless multimodal and interconnected freight system. The Plan supports the plan's call for exploring greater use of federal funding tools such as Build America Bonds, Section 129 loans, Transportation Infrastructure Finance and Innovation Act (TIFIA) credit assistance, and Grant Anticipation Revenue Vehicles (GARVEE) bonds. The Plan also supports exploring additional state funding sources such as *Connect*Oregon, Oregon Jobs and Transportation Act (JTA), Oregon Transportation Improvement Acts (OTIAs), public-private partnerships for freight system improvements.

- Aggressively move forward to implement requirements of House Bill 2001, as adopted by the 2009 Oregon Legislature, and take steps to implement recommendations of the 2008 Transportation Vision Committee Report to improve the alignment, efficiency and cost-effectiveness of transportation systems provided by the state, counties, cities and special service districts in Oregon. Additionally, move to adopt remaining recommendations of the Transportation Vision Committee Report including: the development of a new funding allocation formula that better reflects the transportation needs and benefits regardless of what entity owns the facility; development of new highway design investment criteria that better reflect local needs and financial realities; co-location of ODOT and local transportation agency staff to improve communication and coordination; review of state highway programs to reflect the lack of local or state resources to address these corridors and the fact that many of them serve as local streets; a review and evaluation of whether the MPO stakeholder involvement processes allow adequate community input; and a review of ODOT project selection criteria to ensure that economic development and job creation receive significant consideration in the process.

Initiative leader: Steve Clark, Community Newspapers

MEMO

To: Governor John Kitzhaber
From: Oregon Business Plan Steering Committee
Re: Industrial Lands and Regulatory Streamlining
Date: January 10, 2011

Problem

An inventory of competitive shovel ready industrial sites is critical for attracting new industry to the state and for keeping expanding industry from going elsewhere. There is a broad consensus that the state is lacking in competitive sites due to a wide range of state, regional, and local issues. Some of the traded-sector business that Oregon wants are relatively large and require parcels sized and with services to accommodate them. In some places Oregon is critically low on land that is ready to go for such businesses ("shovel-ready land"). Many cities lack large parcels (25 acres or greater) altogether; getting an inventory of such parcels that are cleared of legal and administrative encumbrances to construction can take years.

Three main problems prevent Oregon from having an adequate supply of shovel ready industrial sites to support large employers with high wage jobs:

1) Oregon's land use laws make it very difficult to get enough land, and to make that land ready for employment uses. Oregon cities face years of expensive processes and appeals to make relatively modest amounts of land available for employment.

2) Much of the land currently designated industrial has significant development constraints, such as extensive wetland, environmental contamination, lack of infrastructure, or poor location for a particularly industry. These constraints are significant enough that they will not attract development if developers must pay the cost of remediating all those constraints. State and local jurisdictions also lack the funding capacity to develop the infrastructure and do the remediation necessary to make land shovel-ready.

3) Even where development constraints are not fatal, other land uses like commercial, housing, retail, schools, churches and open space and natural resource conservation compete with industrial uses for the existing zoned land and the conversion of industrial lands to other uses reduces the available industrial land supply.

The Business Plan recommends alleviating these problems by changes in policy, practice and attitude that increase (1) the supply of shovel-ready, large-lot, industrially-zoned land; (2), infrastructure funding, and (3) the speed of the entitlement (permitting) process.

1. **Set a clear "Tone at the Top" that economic development, industrial site availability and efficient permitting is a top priority.** A world class competitive business environment requires direction from the Governor and agency heads that economic development is a priority for every agency and that the timely resolution of regulatory issues and delivery of permits is essential for the state's economic prosperity.

   [Can be accomplished independently by the Governor]

2. **Require jurisdictions to maintain a short term, five year rolling supply of development ready industrial sites that meet current and anticipated market needs.** While jurisdictions may have a twenty-year supply of vacant industrial land in the aggregate, often the bulk of that land is not development ready. Expanding companies require development ready *sites*, not an aggregate supply of industrial land identified to meet land use planning regulations. Prospective and expanding Oregon companies will not wait until the last years of the planning period to find a place to build – their market will drive them elsewhere. The requirement for a twenty-year land supply helps jurisdictions do long-term planning and investment but does not ensure that the immediate needs of users and the market for readily developable land are met. A five-year land supply that is immediately developable is also needed to ensure the needs of specific companies and the market are being addressed.

   [Probably requires legislation. Supported by the major business organizations. AFL-CIO has expressed some interest in this idea]

3. **Lead a process to identify and expedite permitting of statewide and regionally significant industrial sites.** Investments in industrial development that provide above average wages and that employ a skilled work force are of such economic significance to the economic recovery of the state that they merit expedited siting. Such projects bolster the economies of their communities and contribute to the economic health of the state as a whole. Permitting for projects of statewide and regional significance should be expedited through a consolidated review and permit delivery process.

   Working with local government, private industry, and regional economic development organizations, the Business Development Department, the Department of Land Conservation & Development, and the Department of Transportation should cooperatively identify statewide and regionally-significant industrial areas and assess their level of readiness.

   [Can probably be done administratively]

4. **Protect statewide and regionally significant industrial sites from conversion to other uses or regulations that reduce development capacity.** State authority is needed to discipline local jurisdictions from making zoning changes or regulatory overlays that reduce the supply of industrial land for other uses without

replenishment. If a local jurisdiction converts a portion or all of a site to a non industrial use, or implements a regulation that reduces the acreage available for industrial development, the state should require the jurisdiction to replace that site or acreage with a site that has like characteristics, including proximity to infrastructure, land characteristics, and appropriate siting for the use in a time line that maintains a five year supply of immediately developable industrial land. This action would support a “no net lose jobs” policy, similar to the City of Portland’s no net loss housing policy that requires replacement of residentially zoned property.

[Would require legislation. Supported by the major business groups and AFL-CIO. 1000 Friends has expressed some interest in the concept of preventing conversion of industrial employment land to other uses]

5. **Amend the Transportation Planning Rule (TPR, state land-use Goal 12) to give more flexibility for development that creates new jobs and industry.** Integrating transportation and land use planning is a laudable goal and a critical component of Oregon’s land use system. However, it is clear that one Oregon land use goal (goal 12- transportation planning) is clearly trumping another (goal 9-economic development), in land use decision-making, leaving economic development opportunities unrealized. It is possible to reconcile transportation planning and economic development, but it will take a new approach. This could be done in several ways.

   We recommend a revision of the TPR that balances the amount of investment required to meet the TPR with other goals. These goals should include job creation, how much the anticipated development will generate in state income tax revenue, etc. For example, the Purpose section of the TPR should be amended to require that the concurrency provisions of the TPR be balanced with the state's economic development needs under Goal 9 and its related administrative rules, and that Section 0060 of the TPR should be amended to add a new subsection (d) to allow a local government to determine that a finding of significant affect may be mitigated by a concurrent finding of significant economic benefit to be derived from the proposed plan or land use regulation amendment.

   Another solution involves metering the TPR assessment based on the incremental use of the site over time, rather than paying the fee on the maximum anticipated impact.

   A third idea would be applying the TPR assessment to a corridor standard level of service, rather than the immediate impacted area.

   The legislature recognized the problems with the TPR when it passed HB 3379 in 2009 to provide more flexibility on the TPR. Unfortunately, the bill was significantly watered down in the committee process and the subsequent agency implementation of it has not addressed the major problems with the rule as it is currently implemented.

[Most of the solutions could technically be achieved through rule-making, however politically, legislation is probably required]

6. **Create mechanisms to pay for infrastructure and remediation.** Oregon needs a source of funds to provide infrastructure to and help remediate development constraints on industrial lands. Potential solutions include a shared income tax revenue model by sequestering a portion of new revenues from jobs created in a new business location to help pay, in part, for infrastructure improvements. Also, a full review of other financing instruments should be considered (e.g. bonding, LID, TIF, SDC, local taxing districts, etc.).

   [Legislation required to appropriate funds back to the local community]

7. **Create incentives to spark investment in and clean up of Brownfield sites.** Many of the potentially developable sites are contaminated to the degree that new investors cannot take on the liability or cost of clean up. Solutions include financial incentives for voluntary clean up, tax credits and job creation bonuses. Creative revenue sharing solutions need to be devised that allow local jurisdictions, the private sector and the state to form partnerships to make clean up and redevelopment possible.

   [Legislation required]

8. **Adopt new approaches to wetlands mitigation.** The theory behind UGBs is that there is lot of planning and analysis done up front on all the trade-offs, but once that is done, the land inside the UGB is supposed to be available for development. This has not always been the case, but recently we're seeing DSL require 'need' analysis for wetlands inside the boundary on a project by project basis, when all that sort of study should be done at the planning (i.e. UGB) level, not at the permit counter.

   Communities particularly affected by this include the mid-Willamette Valley and the Columbia Gorge. When wetlands are present on an industrial site, a potential developer faces the need to obtain permits from both the DSL and the ACOE. These permitting processes add time, effort, expense and uncertainty to the development process. There are opportunities to expedite the resolution of these issues that protect both environmental economic interests.

   These include: the development of Regional General Permits for high priority industrial sites that have issues like wetlands mitigation that involve multiple agencies and jurisdictions. Another opportunity is to facilitate use of an ecosystem services approach, where developers can pay nearby landowners to provide the same equivalent ecosystem benefit that would be provided by keeping the site out of development.

9. **Employ a patient developer to assemble and address constraints over time to prepare sites for development.** Promote and enable ports and port-like development authority's the financial and legal ability to assemble parcels, mitigate development constraints and hold sites over time to ensure there is an adequate five year rolling supply of industrial sites in each jurisdiction. Many parts of the state are underperforming due to a lack of such developers. Further, other issues like environmental mitigation, industry recruitment, and infrastructure development are facilitated and improved through professional land management and development.

   [Might be doable without legislation if an existing entity like the Port of Portland were employed]

10. **Review and reform the appeals process to prevent unwarranted project delay.** There is concern that excessive appeals by those with questionable standing or little "skin in the game" are slowing down permitting processes, not just in land use decisions but across business activities. Oregon should review its appeals process in order to identify and rectify sources of unwarranted project delay. Possible reforms include limitations on who has standing to file an appeal and/or the introduction of fees for filing appeals.

Initiative Leader: Steve Clark, Community Newspapers

MEMO

To: Governor John Kitzhaber
From: Oregon Business Plan Steering Committee
Re: Water withdrawal from Columbia River
Date: January 10, 2011

Authorize high flow and mitigated water withdrawal from the Columbia River.

Current Water Resources Commission division 33 rules preclude withdrawing water from the Columbia River above Bonneville Dam for irrigation and other beneficial uses between April 15 and September 30, regardless of flow conditions. There are times during this precluded season when flows are high and fish are harmed, because of excessive spills over the dams. During these periods, we suggest that Water Resources Department staff have flexibility to allow withdrawals to occur when flows are above some minimum flow target level. Such a policy would help develop thousands of acres of land in rural Northeastern Oregon, creating jobs and adding public and private sector revenues. It is important to note that many of the areas potentially served by such withdrawals also lay in State designated critical ground water management areas. In addition to helping facilitate additional development, this program could also help existing irrigated acres by relieving pressure on the ground water in the northeast Oregon Columbia Basin. Usage of “high-flow” or “mitigated flow” Columbia River water could facilitate recharge projects, maintain and restore production on currently developed irrigated ground and aid in return flows and other net environmental benefits.

We suggest that Governor Kitzhaber direct the Water Resources Commission to develop a workgroup of water users and Columbia River stakeholders to establish new guidelines for precluded season withdrawals (division 33 rules). The timeline of the workgroup process should be expeditious enough to allow for a decision to be made before the end of the 2011 Oregon legislative session

Initiative leader: Kent Madison, Madison Farms

MEMO

To: Governor John Kitzhaber
From: Oregon Business Plan Steering Committee
Re: Tax policy changes to spark job and income growth
Date: January 10, 2011

The 2011 Oregon Business Plan fiscal recommendations aim to help Oregon:

- Stabilize funding for public services; to provide free or affordable education for all Oregonians so every Oregonian can gain the skills necessary for a quality job. Quality education is vital for a strong, healthy economy.
- Provide a social safety net for the vulnerable and the unemployed.
- Ensure the public safety.
- Protect our natural resources.
- Provide targeted funding for economic development initiatives that have a strong return on investment.
- Create tax policies that incent economic growth, raise our standard of living, and generate higher public revenues.

The Plan includes detailed recommendations on a new approach to state budgeting and specific ideas for how to provide high quality public services at a lower cost to tax payers. Even if all of these recommendations are implemented, Oregon will still face tough choices for the next few years as we attempt to do more with fewer available resources. Please refer to the Plan Summary for a full list of our budget recommendations.

This memo focuses on just one piece of fiscal policy: taxes. In concert with the budget reforms, these recommendations, if implemented, will spark economic growth and help us achieve our other goals of creating 25, 000 jobs per year and raising Oregon's per capita income above the national average by 2020.

- Reduce capital gains taxes to incent investment in Oregon.
- Extend the Research and Development tax credit.
- Retain a modified Business Energy Tax Credit.
- Give Business Oregon the opportunity to apply payroll-based incentives that help retain and expand companies that pay high wages but may not be capital intensive.
- Consider revenue sharing for local governments that support economic development (potentially tie to enterprise zone renewal).
- Examine the impact of the 2009 tax changes on small- and medium-sized businesses and their ability to keep and grow jobs.
- Reconnect to the federal tax code
- Adjust the personal and corporate kickers to fill reserve funds (details included in budget recommendations.)