POLICY PLAYBOOK

TIME TO DELIVER

2011 LEADERSHIP SUMMIT

DECEMBER 12 - 13, 2011

Oregon Business Plan.org

Oregon Business Plan Steering Committee

Patrick Reiten, *Chair*, Pacific Power
Eric Blackledge, At-Large Member, Blackledge Furniture
Sam Brooks, Oregon Association of Minority Entrepreneurs,
S. Brooks & Associates
Justin Delaney, Oregon Business Association, The Standard
Matt Donegan, State Board of Higher Education, Forest Capital Partners
Kirby Dyess, At-large Member, Austin Capital Management
Dan Harmon, Associated Oregon Industries, Hoffman Corporation
Steven Holwerda, At-Large Member, Fergusen Wellman Capital Management
J.E. Isaac, Portland Business Alliance
Randy Miller, At-large Member, Produce Row Property Management
Wally Van Valkenburg, Oregon Business Development Commission, Stoel Rives
Malia Wasson, Oregon Business Council, US Bank – Oregon
Brett Wilcox, At-large Member, Summit Power Alternatives

Ex-Officio Members

Jon Chandler, Oregon Homebuilders Association
Jay Clemens, Associated Oregon Industries
Ryan Deckert, Oregon Business Association
Tim McCabe, Oregon Business Development Department
Steve McCoid, Oregon Restaurant and Lodging Association
Sandra McDonough, Portland Business Alliance
Mike Salsgiver, Associated General Contractors
Duncan Wyse, Oregon Business Council

TO SUMMIT PARTICIPANTS

My Fellow Oregonians:

Welcome to the 9th Oregon Leadership Summit.

As we gather once again, the Oregon economy, despite glimmers of improvement here and there, is still struggling. Unemployment remains high. We are both mired in and hurt by the depressed housing market. And public sector budgets and jobs are feeling the impact of reduced revenues combined with depleted stimulus funds and cash reserves.

The Oregon Business Plan is about improving this picture – growing good jobs and raising per capita income by improving the climate for economic success. In particular, we hope to add 25,000 more jobs each year and to raise our per capita income above the national average by 2020. Over the past 12 months, in fact, we've exceeded our annul job growth objective.

Last year we targeted two key efforts to help get things back on track: addressing Oregon's looming fiscal crisis, and looking for ways to boost near-term job growth across Oregon.

Coming out of last year's summit the Governor and the 2011 Legislature made historic progress on key elements of both agendas, enacting groundbreaking policy changes to improve budgeting, education, and health care. They also prioritized budget investments in economic development programs that will improve job creation.

Although it's fitting to celebrate these successes, our most important task at this year's summit is to consider our next steps, in particular implementation of the new reforms. With these new policy tools in place, it's time to deliver. As a part of this effort, we invite your comments and ideas, both at the summit and through the Business Plan website, www.oregonbusinessplan.org.

This year, toward that end, we're adding a second-day workshop on Tuesday, December 13, focused on implementation of the new education, health care, and budget reforms. This is geared especially for legislators and stakeholders.

Thanks again for joining these important discussions. The policy breakthroughs this past year prove that this work makes a difference and that we must stay with it in 2012 and beyond.

Sincerely

Patrick Reiten
Chair, Oregon Business Plan Steering Committee

CONTENTS

The Oregon Business Plan Framework	1
Economic Progress and Challenges	5
Progress on Key Initiatives	8
Agenda for 2012 and Beyond	13

THE OREGON BUSINESS PLAN FRAMEWORK

The Oregon Business Plan was conceived in 2002 as an ongoing forum for Oregon's private and public sector leaders to collaborate on improving Oregon's economy. The framework for the plan has endured as an effective tool for cooperation and collaboration.

Goal, Vision, and Strategy

The goal of the Business Plan is to grow quality jobs across the state and, in doing so, to raise the incomes of Oregonians. We envision reaching that goal by growing diverse, thriving clusters of industries that are global leaders in product design and innovation. The strategy to boost these industries is to improve the conditions necessary for them to succeed: talented people, greater productivity, quality of place, and pioneering innovation – what we call the 4Ps for prosperity.

Using this framework – illustrated on pages 3 and 4 – the Business Plan presents a set of initiatives that support the vision and strategy. The initiatives change over time as conditions evolve and opportunities arise. Using the vision and strategy as a guide, a key role for the Business Plan is to help identify the work that is most timely and important given current circumstances. To set the agenda, the Business Plan Steering Committee consults with business, community, and elected leaders throughout the state.

Key Successes

Over the past decade, the Business Plan has helped spark many successful efforts to improve our economy. Examples include creating an innovation agenda through Oregon InC, funding transportation projects, encouraging higher standards in education, and reforming the Public Employee Retirement System. As described below, thanks to exemplary leadership by Governor Kitzhaber, Senate President Peter Courtney, and Co-Speakers Bruce Hanna and Arnie Roblan, we can point to many significant accomplishments over the past year on initiatives identified in the Business Plan.

On one hand, human services and corrections are taking a growing share of state revenue at the expense of education. On the other, our unbalanced, unstable tax structure creates severe stress on public services while penalizing income growth and investment.

Broad Challenges

These recent successes are especially gratifying in light of the deep challenges currently facing our state. In 2010, recognizing the pain inflicted on Oregon by the Great Recession, the Business Plan took a hard look at the data and at the challenges we face. The analysis was disturbing. Despite our efforts, Oregon's per capita income lags the nation by nearly 10 percent. We see equally disturbing trends in public finance. On one hand, human services and corrections are taking a growing share of state revenue at the expense of education. On the other, our unbalanced, unstable tax structure creates severe stress on public services while penalizing income growth and investment. These trends suggest a vicious cycle at work that could further erode economic performance over the decades ahead. Last year we referred to that cycle as a "Circle of Scarcity."

With this diagnosis in hand, business leaders representing the Oregon Business Plan traveled the state during 2010 seeking ideas on how Oregon should proceed in light of these challenges. What we heard was uplifting. Despite these challenges, we were reminded that Oregon is blessed with strong businesses that are working hard to compete globally. We heard about stories of innovation in every corner of the state.

We also heard business after business identify the same impediments to economic growth: Workforce challenges due to inadequate student preparation in our education system and a misalignment of worker skills with the evolving needs of businesses. A tax policy that provides little revenue stability and encourages wealth to leave the state. A frustration about endless opposition to development projects and a cumbersome appeals process. Missed opportunities to manage our natural resources for higher economic, environmental and community benefits. Difficulty in finding capital to grow early stage and expanding businesses.

The Role of Public Services

Equally significant, we heard a common message about public services and the relation of public services to the economy. Business leaders widely agree that education is essential to the long-term economic health of our state. They said they understand that given current trends, expenditures on corrections, health care and other human services will strangle education funding over the years. They also said that *all* public services, including education, are ripe for innovation and redesign. For Oregon to be successful economically, they noted, it is essential that we innovate in the public sector to produce better outcomes with the dollars available and to put Oregon on a path to greater investment and much greater attainment in education.

The Dual Agenda

Those findings in 2010 led the Business Plan to reorganize its initiatives into two broad planks: The Public Services Redesign Agenda and the Jobs Agenda. The Redesign Agenda seeks public sector improvements vital to the conditions for business success. Public services redesign also supports the job growth agenda to the extent that Oregon can offer existing or prospective businesses high quality public services at costs that are competitive with neighboring states.

In 2010 the Business Plan recommended the following public service improvements: overhaul of Oregon's state budget system, reforms in education, public safety and health care, reform of public employee compensation, and stabilization of state revenues.

The Jobs Agenda identified ten tactical initiatives and investments to spark job growth in the near term, while also supporting aspects of the longer-term policy agenda. These initiatives include support for the Oregon Innovation Plan, better use of state resources to improve capital access for businesses, regulatory streamlining, managing forests for improved health and biomass production, and accelerated energy efficiency. Together, the redesign and jobs agendas are designed to help pull Oregon out of our deep recession and set the state on a path towards sustained prosperity.

As we prepare for a new year, the Business Plan Steering Committee sees no reason to stray from the agenda set forth last year. Oregon has accomplished much, yet we still have a great deal to do on the initiatives already identified. A summary of the Business Plan framework and its current initiatives is presented in the following two pages. In the remainder of the Policy Playbook, we discuss challenges, trends, and highlights in the Oregon economy, progress in achieving our redesign and jobs initiatives, and the work ahead in 2012.

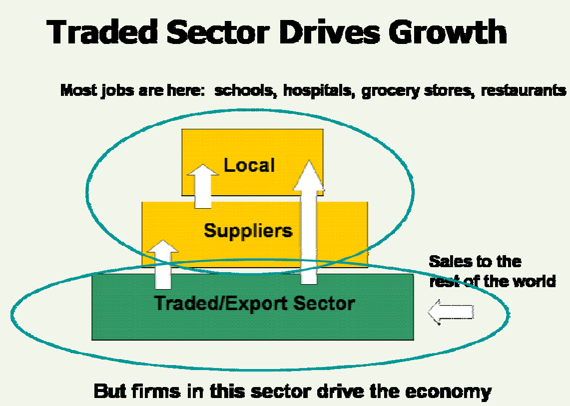
Oregon Business Plan Goal, Vision, and Strategy

Goal: Quality Jobs in Every Corner of Oregon

- 25, 000 net new jobs per year
- Per capita income above the national average by 2020

Vision: Clusters of Innovative, Sustainable, Globally Competitive Industries

Traded-sector businesses drive the Oregon economy. They export products and services outside of Oregon, bringing in fresh dollars that re-circulate through payrolls, employee spending in the local economy, purchases from vendors, and tax revenues that fund critical public services like education. Industries that sell globally are both big and small. In fact, 88 percent of businesses considered "traded-sector" are small. These industries tend to cluster based on access to shared resources, talent, suppliers, and other factors. They are as diverse as metals, machinery, semiconductors, software, tourism, footwear and apparel, renewable energy technologies, and green building design. Some of Oregon's key traded-sector industry clusters are listed below.



Advanced Manufacturing
- Metals (Primary and Secondary)
- Machinery + Transportation Equip.
- Food Processing
- Defense

High Tech
- Computer and Electronics Equipment
- Software
- Education Technology + Services
- Biotechnology

Natural Resources
- Forestry and Wood Products
- Agriculture Products
- Wine/Winemaking
- Beer/Brewing
- Nursery Products
- Tourism and Hospitality
- Heavy Lift Helicopters

Footwear, Apparel and Outdoor Gear

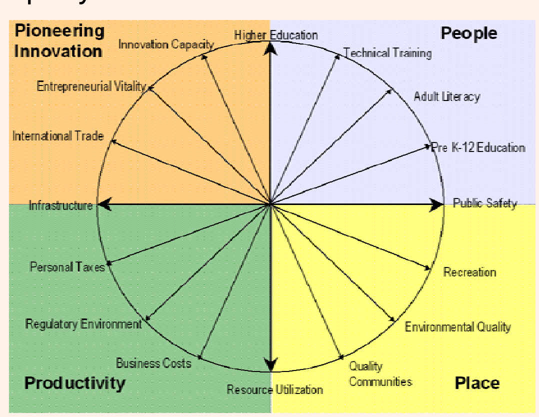
Clean Technology
- Green Building and Design
- Energy Efficiency
- Solar Manufacturing
- Wind Energy Development
- Wave Energy Development
- Environmental Technology + Services.
- Electric Vehicles + Green Transportation

Creative Industries

Strategy: Conditions Critical for Success: 4Ps for Prosperity

Representatives from key industry clusters report the following conditions are essential to promote high-wage job growth in Oregon:

People: A talented workforce.
Productivity: Quality infrastructure, resource utilization, competitive regulations and business costs.
Place: A high quality of life that attracts and retains talented people.
Pioneering Innovation: A culture of research, commercialization and innovation in product and process design.



Current Initiatives to Support the Vision and Strategy	
Redesign Public Services (Achieve Better Outcomes With The Dollars We Have)	Jobs Agenda (Spark Investment and Job Creation)
(High Priority Efforts in Process, Results Expected by Close of 2012)	
• *Education and Workforce*. Redesign education delivery to meet ambitious goals for quality and degree attainment. • *Health Care*. Revamp the way we purchase and deliver services through Medicaid reform and employer purchasing practices, including creation of a health insurance exchange. • *State Budgeting.* Develop a budget for the 2013 Legislature that is tied to outcomes and a long-term budget strategy for the state.	• *Innovation*. Implement Oregon Innovation Plan. • *Capital Access*. Strengthen access to early stage and venture capital. • *Regulatory Streamlining*. Simplify and streamline regulations and permits, especially those focused on manufacturing. • *Industrial Land*. Designate additional sites and land supply for industrial development that yields jobs. • *Transportation Infrastructure*. Advance key transportation projects, including Columbia River Crossing. • *Improved Public Forest Management*. Accelerate thinning of fuel loads, especially dry side lands; convert material to biomass energy/products. • *Energy Efficiency*. Implement Cool Schools program. • *Workforce Demand Readiness*. Train Oregonians for high-demand jobs; implement Career Readiness Certificate and other measures to create career ready communities. • *Water for Agriculture*. Increase high water withdrawal from Columbia River to boost agriculture, jobs. • *Tax Changes.* Make targeted changes in the tax code to spark growth and jobs.
(Efforts in 2012 Could Bear Fruit in 2013 and Beyond)	
• *Stable and Balance Tax System*. It's time to agree on steps to stabilize revenue and spark economic growth. • *Public Safety*. Agree on policies to stabilize the skyrocketing costs of corrections. • *Public Employee Total Compensation*. Review total compensation of public employees with an aim to provide a compensation package that attracts and rewards talent and is fair to taxpayers.	

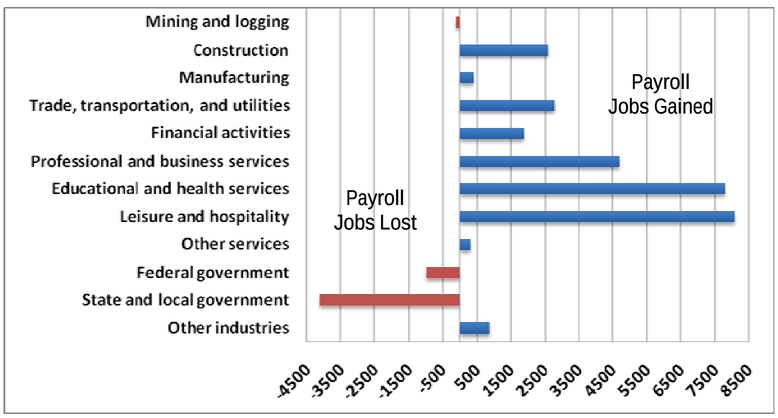
ECONOMIC PROGRESS AND CHALLENGES

As a context for the Oregon Business Plan, it is helpful to look at how the Oregon economy is doing, along with the trends and challenges we face. The picture is decidedly mixed.

Assessing Progress and Preparing for Growth

At last year's Summit, we set two goals: create 25,000 additional jobs per year and raise our per capita income above the national average by 2020. While we met this year's job growth target – netting 24,300 payroll jobs and some 9,000 self-employment jobs – unemployment remains high, and a variety of cross currents are in play. Private sector employment, which took the large hits early in the recession, is coming back. Unfortunately, income growth hasn't been robust enough to generate revenue needed for critical public services — especially education. Public sector employment is also jeopardized because jurisdictions have used up most of their federal stimulus funds and have drawn down what budget reserves they had. Just when our need to raise education attainment is most urgent, Oregon's schools, colleges, and universities are laying off teachers. And, for too many vulnerable Oregonians, cuts to human service budgets have frayed the safety net. At the same time, the federal government appears unlikely to intervene with a second round of stimulus spending.

Change in Oregon Nonfarm Payroll Employment by Industry
October 2010 through October 2011



Source: ECONorthwest

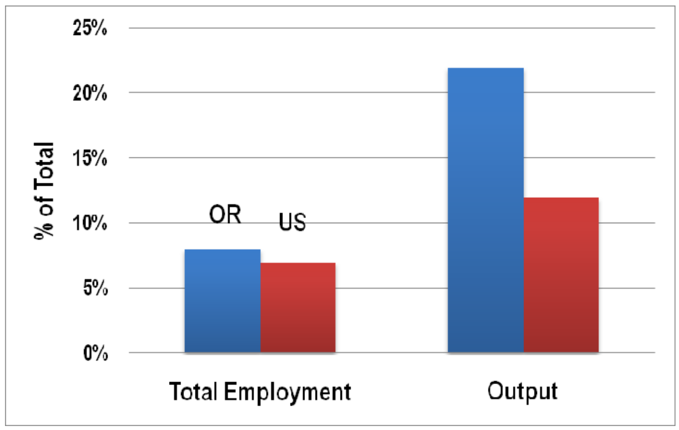
December 2011 marks the fourth anniversary of the start of the Great Recession. As with financial crises that preceded it—in the U.S. and elsewhere—recovery is slow. Millions of houses remain vacant across the country, which slows demand for new construction. With weak job prospects and damaged balance sheets, many households have doubled up and avoided spending on non-essentials. Gradually, population growth and household formation will absorb the excess supply of houses. Most forecasts predict elevated rates of U.S. unemployment for at least three more years. So, while we keep an eye on the month-to-month economic indicators, we must also recognize that we're in a distance race, not a sprint.

Given these circumstances, the question for Oregon's political and business leaders is this: *With good odds that the recovery will unfold over years rather than months, how do businesses and governments strategically use the next year or two to position the state for robust income and job growth in the second half of the decade?*

To answer that question, we need some sense of what could drive future growth. The debt-financed, consumer economy found its limits. Households and the financial sector have taken their lessons from the 2008 crash. With domestic consumption playing a muted role, economists view exports to the emerging consumer economies of China, India, and Brazil as the key opportunity for U.S. growth.

Looking beyond this crisis, with the nation's focus on exports, Oregon's prospects are bright. Our economy has long been trade oriented and consists of a number of world-class industrial sectors. Increasingly, our firms sell products and services outside the nation's borders. Oregon's exports per capita are 11 percent above the U.S. average. In the Portland area, exports represent one-fifth of economic activity.

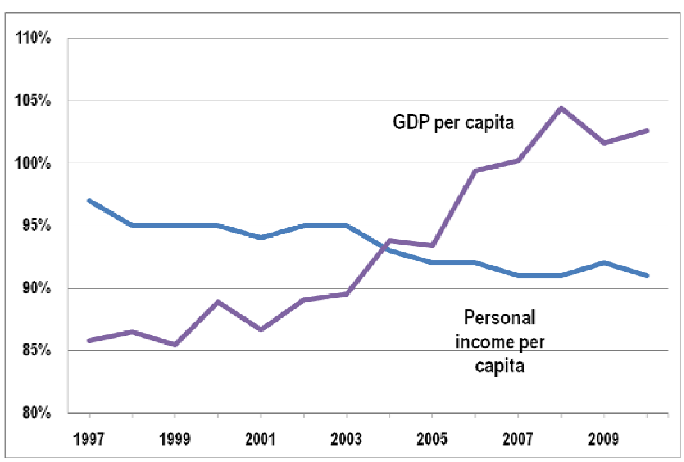
Oregon Manufacturing: Share of Economic Activity, 2011



Source: ECONorthwest

Oregon's traded sector has diversified over the past 30 years. We continue to enjoy a very strong set of industries built on our natural resource base. Particularly strong opportunities exist in value added and specialty products, which could be strengthened through adoption of smarter natural resources policies, as recommended in the Business Plan. At the same time, we enjoy strong growth in manufacturing, high technology equipment, biosciences, and footwear and sports apparel. As shown in the figure above, we make a lot more things for our size than the nation as a whole. In recent years, taking advantage of our reputation for sustainability, many clean-technology sectors have emerged, including green buildings, wind, solar and wave energy, and electric vehicles. Tourism continues to grow, taking advantage of our natural environment and vibrant communities. Tourism continues to be a gateway for attracting talented people to live here.

Oregon GDP and Income Per Capita
Relative to the United States



Source: ECONorthwest

Using the Recovery Strategically

The U.S. economy is resilient. Although this downturn has lingered, compared to previous slumps in U.S. history, our rebound compares favorably to those experienced after financial crises in Japan, Norway, and Spain. The question is not whether the U.S. economy will recover but when.

How Oregon uses the time between now and the next, sustained economic expansion will determine whether we meet our job and income goals. Specifically, we should:

- **Accelerate public and private-sector investments and put idle Oregonians to work**. Smart businesses make investments during downturns. Oregon should do the same. Long-term unemployment associated with this recession is severe. Capable and willing workers need opportunities to put their skills to work. The Business Plan lists a number of initiatives that would launch critical energy, natural resource, and transportation-related projects —when labor is widely available and the cost of materials is low.

- **Innovate and build on Oregon's rising productivity**. Productivity – or value added – per worker has improved during the past decade in Oregon. During 1997-2010, Oregon's real gross state product per capita rose from 86 percent to 103 percent of the U.S. average, an unprecedented surge in worker productivity. Nearly all of those gains were delivered by the innovation and investment of traded-sector firms. It's one of the few bright spots in the state's economic news. To compete, our products and services must continue to be innovative and leading edge. Whether in agriculture, forest products, footwear, specialty metals products, or high technology, Oregon firms lead through innovation.

  Imposed against this need, Oregon's high personal and capital gains taxes discourage innovative, talented, high-income individuals from locating here. This is particularly serious for attracting venture capitalists, software firms, and professional service firms.

- **Reverse the declining investment in human capital.** Oregon's education budgets have faced twin challenges during the past decade. First, weak overall economic growth has slowed income and property tax revenue. Second, within this weak revenue context, education budgets have lost share to fast-growing Medicaid and corrections spending. Disinvestment is most acute in postsecondary education where nominal state spending increased only 1 percent annually during a decade when the college-age population was booming. The disinvestment in postsecondary education undermines our ability to cultivate native talent and attract new talent to the state.

  The Legislature recently adopted an ambitious 40/40/20 education attainment goal to be achieved by 2025. This calls for 40 percent of adult Oregonians to have a bachelor's degree or better, 40 percent to have an associate's degree or certificate, and the remaining 20 percent to have at least a full option, high school diploma. To have a realistic chance of meeting this goal, education must retain its share of a state budget that benefits from robust economic growth.

- **Develop an outcome-focused, data-driven state government.** Government's productivity must grow along with the private sector's. That starts by organizing government procurement around outcomes rather than inputs. In education, we now buy seats rather than achievement. In the medical system, we now pay for procedures rather than health. That mindset has to change. The Governor and Legislature have committed to move the state to outcome-based, long-term budgeting. Blueprints for that redesign are now in the works and the hard work of implementation is beginning.

PROGRESS ON KEY INITIATIVES

Last year, as we recognized the gravity of our long-term budget crisis, we proposed six initiatives for state government to redirect resources, redesign services, and stabilize revenues. We call these the Redesign Initiatives. In addition, we presented ten ideas to spark business and job growth and rebuild confidence in Oregon's economy in all corners of the state. These are the Job Creation Initiatives.

The two tables below list 2010 Business Plan recommendations (left column) and legislation adopted or executive actions taken on those recommendations (right column) for both redesign and job creation initiatives. As the tables illustrate, excellent progress was made on many of the Business Plan recommendations, setting the stage for implementation on a range of measures. The tables also show that recommendations on a few important issues, such as public employee compensation and state revenue stabilization, still need fundamental policy action.

Redesign Initiatives	
2010 Business Plan Recommendations	**Progress to Date in Adopted Legislation & Actions**
1. Revamp Oregon's budget system. • Forecast revenues and spending at least a decade out. • Specify outcomes and outcome measures for budget expenditures. • Allocate revenue among outcomes desired. • Build accountability, learning, and improvement into budgeting. Meanwhile, balance the 2011-13 budget.	✓ SB 676 mandates outcomes-based budgeting. A team of the Governor's staff and Oregon business leaders is developing a set of technical steps to implement long-term, outcomes-based budgeting. ✓ The Governor hired a chief operating officer to manage the budgeting overhaul and improve state efficiency. ✓ The legislature balanced the budget on time to fit available revenues.
2. Redesign education 0 to 20. • Create an education investment board. • Remove OUS from state agency status. • Rethink education service districts. • Advance use of virtual learning. • Reduce student transportation costs.	✓ SB 909 creates an education investment board to coordinate learning services from 0 to 20. ✓ SB 552 designates the Governor as superintendent of public instruction. ✓ SB 253 sets high education attainment goals for Oregonians: by 2025, 100% are to have a high school diploma, 40% at least a bachelor's degree, and 40% at least an associates or technical degree. ✓ SB 252 creates the School District Collaboration Grant Program, which will support teacher-led efforts to design and implement reforms that improve practice in the classroom and recognize and reward excellence. ✓ SB 290 directs the State Board of Education to adopt performance standards for Oregon educators. Those standards will incorporate multiple measures of student learning and be used in local teacher evaluations. ✓ SB 242 frees the Oregon University System from state agency status, giving it more autonomy and control over its finances. ✓ SB 250 allows school districts to opt out of education service districts (ESDs). ✓ HB 2301 eases enrollment restrictions on virtual charter schools; requires 95% of instructional hours by licensed

	teachers. ✓ (Though not in the Business Plan, HB 3681 adds market competition in public education by allowing students to transfer out of their school district if other districts are accepting transfers.)
3. Redesign public safety. • Identify best policies and practices in sentencing and corrections that balance safety and punishment with cost. • Consider new sentencing guidelines, Measure 11 adjustments, and alternative forms of detention.	✓ In July Governor Kitzhaber created a high-level Commission on Public Safety to examine Oregon's high corrections costs and make recommendations for overhauling our sentencing guidelines and laws. ✓ HB 2707 requires holding arrested youths safely in juvenile detention centers rather than adult jails, as has been the practice. ✓ HB 3309 authorizes the Department of Corrections to establish on-the-job training for ex-offenders.
4. Redesign health care and human services. • Adopt insurance exchanges that incent buyers to choose insurance that reduces cost and increases the value of health care services. • Consider sunsetting the senior medical tax deduction, limiting growth of the Oregon Health Plan, updating the foster care model, reducing the Oregon State Hospital population, and implementing the Children's Wraparound Initiative statewide.	✓ SB 99 creates the Oregon Health Insurance Exchange, creating a marketplace where where consumers and businesses can shop for health care plans based on cost and quality. ✓ HB 3650 coordinates health care delivery for Medicaid recipients in the Oregon health Plan through coordinated care organizations.
5. Review public employee compensation. • Retain ability to attract talent but bring salaries and benefits in line with market conditions. • Consider six specific recommendations that would eliminate the PERS pickup and out-of-state tax break, invest employees in health care cost control, limit higher end health benefits, and freeze cost of living and step increases.	
6. Build reserve funds to stabilize revenues for public services. • Set aside ending balances for the Rainy Day Fund. • Protect the Rainy Day Fund in the Constitution. • Direct personal and corporate kicker to the Rainy Day Fund; when it is full, allow the personal kicker to kick checks to taxpayers.	

Job Creation Initiatives	
2010 Business Plan Recommendations	**Progress to Date in Adopted Legislation & Actions**
1. **Continue to support the Oregon Innovation Plan,** including investments in signature research centers and innovations in food processing, electric vehicles, and wave energy.	✓ SB 5528 allocated $16 million for Oregon InC, with funds earmarked for research centers (ONAMI, OTRADI, BEST) and for innovations in food processing, electric vehicles, and wave energy.
2. **Employ state business development tools and resources to improve business access to capital.** • Keep Oregon Growth Account funding. • Improve impact of Oregon Investment Fund in supporting promising early-stage companies • Maintain the state's economic development loans and incentives programs. • Keep a modified Business Energy Tax Credit. • Streamline and consolidate the state's business finance tools and incentives in one place. • Add new tools where gaps exist. • Better leverage federal business development tools.	✓ SB 5528 funds the Oregon Business Development Department (Business Oregon), increases the size of the Strategic Reserve Fund, and extends key OBDD loan and incentive programs such as the Oregon Business Development Fund and the Credit Enhancement Fund. ✓ SB 219 enables creation of a state loan program to aid expansion and retention of high payroll, traded-sector businesses with more than 150 employees in economically distressed communities. ✓ HB 3017 extends the state's Enterprise Zone program (abates property taxes on new business investments, which was due to sunset) until 2018. ✓ HB 3672 extends Oregon's Research and Development tax credits and tax credits for dry biomass production until 2018. Under HB 3672 BETC was sunsetted and replaced with three separate income tax credits for renewable energy generation, conservation, and transportation projects. ✓ HB 2523 creates a separate income tax credit for renewable energy resource equipment manufacturing facilities. ✓ SB 817 establishes the Low Income Community Jobs Initiative, building off the federal new markets tax credit, which will help attract $200 million in private sector capital to Oregon communities most hurt by the recession. ✓ HB 2167 offers tax credits and other incentives to film and video projects that come to Oregon.
3. **Streamline regulatory and permitting processes.** • Continue work on Governor Kulongoski's regulatory streamlining initiative. • Consider job impacts in regulation and permitting processes. • Reform the regulatory appeals process. • Require agencies to operate within specific time frames for issuing permits, and developing and enforcing regulations. • Separate permitting from policy functions; establish one-stop natural resource permitting. • Require agency rules to meet strict needs standards and cost-of-compliance evaluation. • Build these goals into agency budgeting. • Establish regulatory streamlining initiatives at the local level and create mechanisms to coordinate streamlining among local, state, and federal levels.	✓ HB 2700 improves the permitting process for linear projects. ✓ SB 766 speeds up permitting for industrial projects and protects key industrial areas. ✓ SB 264A expedites ODOT approval of driveways or private roads that provide access from business property to public roads. ✓ HB 3591 minimizes costs for obtaining variances for new DEQ water standards. ✓ Governor Kitzhaber created a Regulatory Streamlining Advisory Committee, which is using the Business Plan recommendations at left as a starting point to develop a regulatory streamlining roadmap.

4. Make industrial lands ready to develop quickly when they are needed and will create jobs. • Improve land supply: • Better define land readiness and what it will take to make land more ready. • Require jurisdictions to constantly renew their supply of shovel-ready land. • Have ports and other "patient" developers assemble strategic parcels of ready land over the long term. • Reduce infrastructure barriers: • Balance transportation rule with industry and job needs. • Create mechanisms to pay for infrastructure upgrades needed for land development. • Reduce regulatory barriers: • Strengthen use of Goal 9 in land use decisions. • Work with communities on wetlands mitigation issues.	✓ SB 766 provides expedited project review for proposed industrial development projects that offer significant high-wage, skilled employment. ✓ Stakeholders in Central Oregon completed a Regional Economic Opportunity Analysis (REOA) that evaluated large-lot industrial land needs. ✓ The Portland metro region conducted a comprehensive inventory of large-lot industrial sites for new development, analyzed net usable acreage, and considered levels of infrastructure support. ✓ Stakeholders in the Willamette Valley designed a regional wetlands general permit to streamline state and federal wetlands permitting requirements.
5. Actively manage federal and state forest lands, particularly with regard to thinning dangerous fuel loads in Oregon's dry side forests, and utilizing woody biomass as a source of renewable energy. • Implement Federal Forestlands Advisory Committee recommendations to this effect. • Continue state and federal support to develop a biomass industry. • Encourage state and federal environmental regulations that recognize woody biomass as a carbon neutral source of renewable energy. • Promote market opportunities for Oregon wood products. • Promote sustainable harvests from state forests, especially in our depressed coastal communities that need the resulting jobs and revenues to fund public services.	✓ At the urging of the Forest Cluster, the Board of Forestry named restoration of federal forest health the number one forestry issue in Oregon and renewed its endorsement of the 2009 Federal Forestlands Advisory Committee report. ✓ The Legislature re-authorized the biomass production tax credit for six years. The Business Energy Tax Credit was replaced in part with a Renewable Energy Incentive Program that offers grants for renewable energy projects, including biomass. ✓ SB 862 highlights the Department of Forestry's ability to issue contracts for woody biomass removal and makes it explicit that this activity is a forest practice regulated by the Forest Practices Act. ✓ By rule, Oregon DEQ redefined biomass as carbon neutral. ✓ The U.S. Environmental Protection Agency ruled to defer the regulation of greenhouse gas emissions from biomass for three years while the agency studies the science. ✓ The Board of Forestry approved a new management plan that increases timber harvest and addresses conservation values on the Elliott State Forest near Reedsport. ✓ The Oregon Business Development Department contributed $50,000 to support a shared biomass technical assistance specialist with the U.S. Forest Service.
6. Accelerate energy efficiency efforts. • Retrofit school buildings. • Create mechanisms for energy utilities to earn a return on capital for efficiency investments. • Support models to increase residential and commercial retrofits. • Accelerate industrial energy efficiency through industry sector initiatives.	✓ HB 2960 established the Governor's "Cool Schools Initiative" that offers low-cost financing to schools implementing energy projects, including the installation of biomass thermal systems. ✓ Various state agencies are implementing the Forest Products Energy Project to study the feasibility of developing renewable energy projects at existing forest products manufacturing facilities or former mill sites.

7. Advance infrastructure projects. These include: • Electric and natural gas transmission upgrades. • Construction of the Columbia River Crossing. • Transportation projects under OTIA that need to move ahead. • Connect Oregon IV. • The Oregon Freight Plan.	✓ Governors Kitzhaber and Gregoire significantly advanced the bi-state commitment to proceed with the Columbia River Crossing. ✓ HB 5036 authorizes $40 million for multi-modal transportation projects under Connect Oregon. ConnectOregon improves the connections between the highway system and other modes of transportation to better integrate the system components, improve flow of commerce, and remove delays.
8. Train Oregonians for high-demand jobs. • Continue to deploy the National Career Readiness Certificate. • Support ETIC investments in training for high paying engineering jobs. • Expand on-the-job training programs.	✓ More than 12,000 Oregonians have earned National Career Readiness Certificates and more than 450 employers have committed to assign value to the NCRC in their hiring practices. ✓ The final budget passed by the legislature includes the $3.5 million Back to Work Oregon program, an investment in on-the-job training and the NCRC that was originally included in the Governor's budget. The program has been matched by Oregon's Local Workforce Investment Boards, and is on track to get 1,325 Oregonians back to work by June 2012. ✓ The 2011-2013 Oregon University System budget includes $26 million to boost engineering graduates across OUS by supporting the Oregon Engineering and Technology Industry Council plan. ✓ HB 3362 allocated $2 million from the General Fund for grants to enhance collaboration between education providers and employers, based on recommendations of the Career and Technical Education Task Force established by HB 2732 in 2009. ✓ The Legislature passed SB 175 to create the Oregon Youth Employment Program and a separate program, the Oregon Employer Workforce Training Fund, which would update skills of incumbent workers. Although the bill establishes funds for both programs, the Legislature did not appropriate resources to these funds in the 2011 legislative session.
9. Authorize Columbia River water withdrawal during high flows. • This policy could open thousands of acres for irrigation, crops, and jobs.	✓ The Governor directed the Water Resource Board to review Rule 33, regarding withdrawal of water from the Columbia River for agricultural purposes during high flow periods. A working group of stakeholders formed to develop a proposal.
10. Make tax changes that spark growth. • Reduce capital gains reinvested in job creation. • Extend R&D tax credits. • Retain a modified Business Energy Tax Credit. • Through Business Oregon, use pay-roll based incentives to help expand and retain high-wage companies. • Consider revenue sharing for local governments that support economic development. • Assess the impact of 2009 tax increases passed by the Legislature and affirmed by the voters on the ability of small- and medium-sized businesses to keep and grow jobs.	✓ HB 3672 extends research and development, biomass, and other key tax credits noted above. ✓ SB 301 ensures that Oregon businesses can take advantage of accelerated depreciation of new equipment.

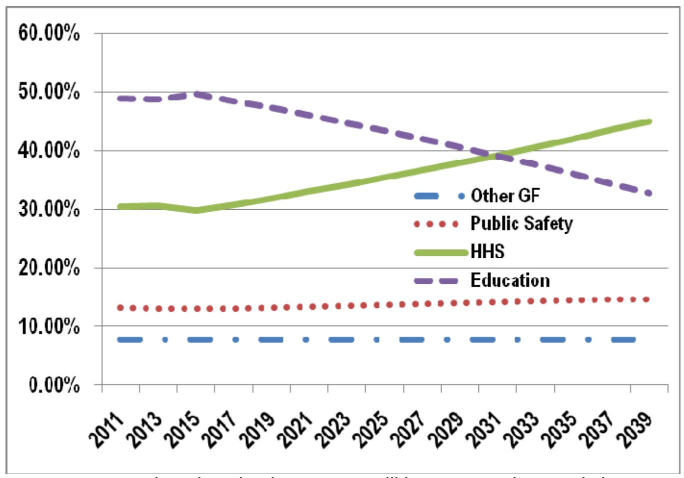
AGENDA FOR 2012 AND BEYOND

Thanks to exemplary leadership by our elected leaders, we enter 2011 with a great deal of momentum on the initiatives recommended last year in the Business Plan. We encourage leadership to build on that momentum in 2012. Below are recommendations for the coming year organized by the two broad planks developed last year: Redesign of Public Services and the Job Creation Agenda. We will seek comments on these recommendations at the summit and through the Oregon Business Plan website. The Steering Committee will revise them according to this input in early 2012.

Public Services Redesign

Oregon's public sector fiscal path is unsustainable and, if left unaddressed, will damage the larger economy. We risk entrapment in a toxic cycle: Oregon's declining level of income and economic activity shrinks revenues available for public services. With a growing share of public services spending on corrections and health services Oregon's support for education, particularly higher education is in decline. This disinvestment in education, particularly post-secondary education, combined with higher personal income tax rates, threatens to drive our declining personal incomes (and revenues for public services) down even farther. Growing PERS liabilities and an increasingly older population with substantial health care needs could further sap the state's economic vitality.

Oregon's Unsustainable Fiscal Path



At current trends, education investment will be squeezed severely by runaway health and human services costs – and by public safety expenditures too large relative to other states.

Source: ECONorthwest

We need to break the cycle. Our goals for fiscal reform should be to:

- Stabilize funding to provide free or affordable education for all Oregonians so every student 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.

1. Revamp Oregon's budget system.

Last year the Business Plan spelled out a set of recommendations to fundamentally revamp the Oregon state budget system. Rather than start by funding what we funded in the past, we should start with outcomes in mind. With that focus on outcomes, we should ask how to best deliver services to achieve those outcomes now and in the future. Then we should set current budgets within the context of a long-term fiscal plan.

Rather than start by funding what we funded in the past, we start with outcomes in mind. With that focus on outcomes, we ask how to best deliver services to achieve those outcomes now and in the future.

Both the Governor and the Legislature have embraced these ideas. SB 676 mandates outcomes budgeting and the Governor has committed to producing such a budget for the 2013-15 Legislature. Under the leadership of the state's Chief Operating Officer, Michael Jordon, the Budget and Management office is planning for an entirely different budgeting process, beginning early in 2012. This process will touch all spheres of public services, but will be particularly important in three areas identified last year for redesign: education, health care, and public safety.

The stakes are high. Without new budgeting tools, it is difficult to imagine how Oregon will steer through the next two decades, given the enormous headwinds facing us, especially the growing costs of health care, public safety, and pensions. The work is difficult and represents the largest restructuring of the budget process in decades. The Governor and the Legislature deserve Oregon's fullest support.

Budget Redesign Recommendations for 2012

- *The Governor should produce a recommended budget that identifies how resources are allocated to critical outcomes desired by the state, including those identified at the beginning of this section. This budget should include a long-term fiscal roadmap that suggests a trajectory for future revenues and expenditures and how the expenditures relate to our long-term goals.*
- *The Legislature should prepare to accept the budget in this new framework and consider how to organize itself in 2013 with this budget framework in mind.*
- *The business community and other key stakeholders should actively support this work as critical for the long-term health of Oregon.*

2. Redesign Oregon education 0 to 20.

This past year, the Governor and the Legislature adopted some of the most sweeping education legislation in decades. The Legislature embraced the goal long advocated by the Business Plan to increase the education attainment of Oregonians: that 40 percent of Oregonians achieve at least a four year degree, another 40 percent some form of associate degree or professional certificate and the remaining 20 percent a meaningful high school diploma. The session passed a series of bills aimed at strengthening the delivery of education. It gave the Oregon University System greater flexibility by removing OUS from state agency status. Several bills revamped the rules for delivery of K-12 education, providing students greater options for what schools they can attend and giving schools greater flexibility to provide services as they see best. Oregon also adopted legislation on standards for professional development of teachers and administrators.

The session's signature accomplishment in education was creation of the Oregon Education Investment Board, which has been assigned to recommend how the state should invest dollars from early childhood through post-secondary education to best achieve Oregon's education outcomes. As part of this work, the Board is rethinking how to create clear pathways to degrees, based on student attainment of specific education standards. It is also tasked with creating a data system to measure the return on public dollars invested in education.

The Education Investment Board has an enormous opportunity to revamp education delivery, focus on students rather than institutions, and steer funding to degrees and achievement rather than enrollments.

The newly created Board has an enormous opportunity to revamp education delivery, focus on students rather than institutions, and steer funding to degrees and achievement rather than enrollments. Implemented well, the new focus will change the way Oregonians teach and learn, expand where and when learning takes place, and break down institutional barriers.

For the 2013 Legislature, we anticipate that a comprehensive budget plan will be presented on how to best invest in education across the education continuum. As part of the plan, we anticipate strategies for improving the delivery of services at all stages. For the first time, Oregon has institutionalized a framework to invest intelligently in education, an undertaking that comprises over half the state general fund.

Education Redesign Recommendations for 2012

- *The Oregon Business Plan should support the Oregon Investment Board's intention to present to the 2012 Legislature 1) a set of education outcomes for different stages of learning from early childhood through advance degrees and a set of measurement tools to track progress towards those outcomes, and 2) proposed legislation to authorize achievement compacts between school districts, colleges, universities and other education providers that commit schools to measurable outcomes for the 2012-13 school year. These compacts would provide a baseline for further outcome budgeting.*
- *The Oregon Education Investment Board should make a series of recommendations, starting in 2012, on how to best organize state boards and agencies relating to education. The aim of the recommendations should be to organize state activities to support the following critical functions: 1) investing in learning outcomes for students, 2) building pathways to degree completion based on clearly articulated educational standards and assessments, 3) creating a longitudinal data system that informs students and teacher of progress and that measures the performance of our educational institutions in meeting state goals, 4) supporting innovations in teaching and learning practices, 5) creating policy, and 6) communicating with stakeholders.*
- *The Governor should prepare a comprehensive, unified outcomes budget for the education continuum for the 2013 Legislature. The budget process itself should encourage stakeholders to propose innovative ideas for improving system performance and achieving greater value for dollars invested.*

- *Business and philanthropic groups should actively participate in and advocate for this effort.*

3. Redesign public safety.

Incarceration rates have been rising significantly since voters approved Ballot Measure 11 in 1994. The measure created mandatory minimum sentences for 16 crimes. During the subsequent decade, the inmate population doubled from 6,000 to 12,000. Today it's at 14,000 and headed to 16,000 by 2020.

The impacts of Measure 11 extend to the number of adults in county jails and on probation or parole. In total, 1 in 33 Oregon adults is under correctional control – up from 1 in 74 in 1982.

Prison expansion has been accompanied by a sharp reduction in crime. In Portland, the rate of violent crime stood at 24 per 1,000 population in 1985. By 2007, it was only 6 per 1,000. Nationally, experts estimate that prison expansions explained about a quarter of the decline in violent crimes during 1990s and about 10 percent of the overall crime reduction. But those experts are perplexed by trends like Oregon's where incarceration rates have been stable since 2004, yet crime rates continue to fall.

Incarceration will always be a critical tool in crime prevention, but it's an expensive one. With the average cost per inmate at $82 daily, prisons have encountered the law of diminishing returns. When voters passed Ballot Measure 11 in 1994, each $1 of prison spending yielded an average $2.78 in benefits—prevented pain, suffering, and losses associated with crime. But as incarceration has spread to less serious offenders, the benefits have declined to only 91 cents for every additional dollar spent.

When voters passed Ballot Measure 11 in 1994, each $1 of prison spending yielded an average $2.78 in benefits—prevented pain, suffering, and losses associated with crime. But as incarceration has spread to less serious offenders, the benefits have declined to only 91 cents for every additional dollar spent.

Recognizing diminishing returns, a number of states have enacted policies to slow or reduce the growth in inmate populations. The Texas legislature halted a half-billion dollar prison construction effort and boosted investments in a cost-effective network of residential and community-based treatment and supervision programs. Rather than grow by a projected 17,000 inmates over the next five years, the prison population in Texas has started to decline.

Texas is not alone. California and Illinois have designed performance rewards for counties that keep probationers out of prison. Mississippi and Nevada roll back sentences for non-violent offenders who successfully complete drug treatment and vocational training programs. Hawaii has coupled random drug tests with short jail stays to successfully prevent bigger parole violations and prison sentences.

Innovation is spreading and – for the first time in 38 years – the inmate population in state prisons fell in 2009. Twenty-six states registered declines, but Oregon was not among them.

Governor Kitzhaber, and his newly appointed Public Safety Commission, is building on this national momentum. Business leaders agree with the commission's philosophy that costly prison beds should be reserved for violent offenders and person-to-person crimes, and that

Measure 11's mandatory minimum sentences should be targeted more narrowly to crimes involving death, serious physical injury, or sexual contact to the victim. Implemented competently, smarter sentencing policies would save hundreds of millions of dollars over the decade with no appreciable change in crime.

Public Safety Redesign Recommendations for 2012

The Business Plan supports the Public Safety Commission's vision:

- *The inmate population should be stabilized, using existing prisons for Oregon's most dangerous, high-risk offenders, and investing in evidenced-based public safety programs with a higher benefit-cost ratio than incarceration.*
- *Policymakers should bring Oregon's cost per inmate in line with national norms. The Commission shows Oregon spent 7.4 percent more than the U.S. average. Much of that difference is driven by compensation per correctional officer, which is also above the U.S. average.*

4. Redesign health care.

The 2011 Legislature passed landmark legislation on health care, which could set the stage for substantial progress on Oregon's goals for health access, affordability, and quality.

The newly created insurance exchange provides the opportunity for individuals and small businesses to choose among a range of health care options, under the umbrella of the Health Exchange Board. SB 99 envisions an exchange where individuals and employees of small businesses can choose among multiple health plan options that compete on cost, quality, and service. The health exchange, properly implemented, can become a model for a competitive-choice, market-based model for health care delivery for all Oregonians.

Besides the exchange, the Legislature passed HB 3650, creating a new model for the delivery of Medicaid in Oregon. Under the Oregon Health Authority and the Oregon Health Policy Board, the newly created community based Coordinated Care Organizations will be expected to search for ways to deliver services at a constrained cost. Implementation begins in July, 2013.

The current system of health care is simply unsustainable. Health care costs are growing much faster than the economy overall, and employers, individuals, and public sector finances are all strained as a result.

Both of these steps were recommended in last year's Business Plan. Both are consistent with the health care strategy presented at the 2005 Leadership Summit. The Business Plan strategy recognizes that the current system of health care is simply unsustainable. Health care costs are growing much faster than the economy overall, and employers, individuals, and public sector finances are all strained as a result. In the public sector, health care cost inflation is taking away dollars that otherwise would go to education. In the private sector, health care inflation is eating away at employee wages and salaries, in some cases to the point where employers must choose to cease providing employee health care altogether.

The core problem comes from the way we procure services. Because health care is provided by employers or the through public support, most individuals are not always cost conscious about services provided. The Business Plan strategy suggests employing market forces to bring costs down. The model for the exchange, in particular, is consistent with that strategy.

Health Care Redesign Recommendations for 2012

- *The Oregon Health Exchange should present a model for a competitive exchange to the Legislature and the Legislature should adopt it, assuming it is consistent with the recommendations presented in 2011 by business groups.*
- *The Legislature should give the Oregon Health Authority approval to authorize community based Coordinated Care Organizations throughout Oregon, giving those organizations wide latitude on how to achieve health outcomes identified by the Health Policy Board.*

5. Review public employee compensation.

Public employees provide critical services to Oregonians. We need to ensure that the level and structure of total compensation is adequate to attract and motivate talented and productive state and local governmental employees. We also need to ensure that total compensation is not excessive. Public employee compensation represents a large share of the total costs of public services, so excessive compensation reduces the level of services governments can provide to citizens.

Public Employee Compensation Recommendations for 2012

- *Policy makers and the public need to know the facts about the level and structure of the costs of compensation for a range of typical state and local government jobs. Few objective studies are publicly available, and those that are tend to look at just a part of the compensation package, rather than total compensation. State and local governments should fund an independent study of total compensation – overseen by a steering committee of citizens – that defines current and future costs to the employer (i.e., the taxpayer) of wages and salaries, health care, retirement and other benefits. This total compensation study should also benchmark the comparable components of compensation for similar private sector jobs in Oregon.*
- *As a general principle, the level and structure of total compensation to public employees in Oregon should be comparable to the total compensation to private sector employees in similar jobs in Oregon. If the level and structure of public and private sector employees are different, state and local governments should move, as quickly as possible, to a level of total compensation that is comparable. The recommendations in Governor Kulongoski's "Reset Report" may provide a place to start.*

6. Revamp Oregon's tax and revenue system to stabilize funding and promote economic growth.

The Oregon Business Plan has long decried Oregon's revenue system as unstable and unbalanced. Because of our reliance on the volatile income tax system, state revenues swing with the economic cycle. During unexpected upturns, Oregon's kicker law returns un-forecasted revenues to the taxpayers. When revenues unexpectedly decline, Oregon has very limited reserves to protect essential services. Our high reliance on income and capital gains also impedes venture capital and high-income job creation that would bolster Oregon's economy.

There are many ways to improve Oregon's revenue system, ranging from modest reforms of the kicker and adjustments to tax rates to a full-blown overhaul. Last year, we suggested modest reforms, but unfortunately nothing was accomplished. Senators Ginny Burdick and Frank Morse proposed a creative, bipartisan plan to modify Oregon's kicker law to place some of the dollars into a reserve fund, and to reduce Oregon's capital gains tax, which is the highest in the nation. Unfortunately, the Legislature did not pursue these ideas and we still have made no progress.

Our tax system and kicker policy impede public service quality and long-term economic growth. They badly need modification.

Our tax system and kicker policy impede public service quality and long-term economic growth. They badly need modification.

Revenue Reform Recommendation for 2012

- *The Governor, working with the Legislature and key stakeholders, should develop revenue and tax policy changes for consideration by the 2013 Legislature and/or the voters. The Burdick-Morse proposal mentioned above would be one good starting point for consideration.Bolder proposals, including a new tax source to offset Oregon's self-defeating high personal income and capital gains tax rates should also be considered.*

Job Creation Agenda

Last year, we presented ten ideas to promote near-term job growth and long-term prosperity. Drawn from earlier policy work and ideas generated as we travelled the state, this list was designed to build momentum and renew confidence in Oregon's economic prospects. We recognized that there are no magic bullets to get Oregon's economy back in gear. We knew that recovery would be slow and uneven – with the timing affected by events beyond our control. In reality, our market economy grows based on the decisions of thousands of individual businesses, and supporting those businesses requires consistent, long-term efforts as described in the Business Plan. That said, a list of items to spark growth is more than warranted in these difficult times. We have updated our list of ten items this year. We made good progress last year, but there is still more to do.

1. Continue to support the Oregon Innovation Plan agenda and accelerate successful models for improving product and process innovation and technology commercialization.

The Oregon Innovation Council (Oregon InC) has done a remarkable job of identifying investments to spark technology commercialization and innovation in both emerging and existing industries. Last year, the Oregon Business Plan continued to support Oregon's three signature research centers, and targeted investments to accelerate innovation in food processing, electric vehicles, and wave energy. The Governor and the Legislature agreed and provide funding for each of these opportunities.

Since its beginning Oregon InC estimates initiatives supported by the Council have generated $250 million in federal and foundation grants and $100 million in private capital for emerging companies. Oregon InC has incubated 18 new companies, and its 11 shared labs on the campuses of Oregon's four research universities have been used by more than 227 businesses to perfect ideas as diverse as portable kidney dialysis machines and new malaria-fighting drugs.

Innovation Recommendations for 2012

- *Oregon InC should carefully administer the funds allocated by the Legislature and utilize its audit and accountability committee to carefully monitor and report back on the progress of each initiative quarterly.*
- *Oregon InC should present a refreshed Innovation Plan to the Governor and the Legislature for consideration in 2013. It should reflect the most current commercialization opportunities in emerging technologies in established and emerging industries. Oregon InC should solicit ideas to be included in the plan in the summer of 2012 from throughout the state; after a review led by private sector leaders, the plan should be submitted to the Governor in December, 2012.*

2. Better structure and align Oregon's business development tools, resources and incentives to address gaps in capital availability and support high-wage job growth.

Oregon made significant progress last year when it maintained key budgets for economic development despite a major state budget shortfall. Legislators balanced budget realities with the need to incent economic activity. They maintained Oregon's R&D tax credit, the biomass tax credit, and the film and video tax credit. Under HB 3672, they sunsetted the Business Energy Tax Credit but replaced it with three separate income tax credits for renewable energy generation, conservation, and transportation projects. HB 2523 creates a separate income tax credit for renewable energy resource equipment manufacturing facilities (formerly part of the BETC) and shifts responsibility for that credit program largely to the Oregon Business Development Department. SB 301, reconnecting to the federal tax code, will encourage business expenditures on equipment through accelerated depreciation. The legislature and Governor also added to Oregon's toolbox with key initiatives such as SB 213, which creates a new source of capital that helps companies with high payrolls expand in Oregon, and SB 817, that sparks investments in low-income communities, modeled after the federal new markets tax credits.

Moving forward, Oregon's challenge is to maximize the effectiveness and efficiency of the various tools it does have, and to do a better job of using these tools to leverage private capital in Oregon.

Business Development Alignment Recommendations for 2012

- *In 2012 the Legislature should establish the "Oregon Investment Act" to:*
  - *Consolidate Oregon's economic development resources in one place where they can be deployed most strategically and efficiently.*
  - *Create a vehicle to incent additional private sector lending and private sector equity investment in Oregon companies.*

3. Simplify and streamline regulatory and permitting processes.

As we listened to business leaders and economic development professionals in preparation for last year's Leadership Summit, we heard them repeatedly cite burdensome regulatory processes as a key impediment to business growth and job creation. The topic is challenging, simply because regulatory processes are such a large element of federal, state and local government operations. With a goal to create a regulatory environment that meets the needs of business while protecting legitimate environmental, safety, and consumer protection interests, we offered broad recommendations for a renewed focus on the topic.

We have seen positive response to these recommendations in four ways. First, the Legislature passed bills (see accomplishments table above) generally designed to cut red-tape and accelerate time to construction of new projects. Second, Governor Kitzhaber created a Regulatory Streamlining Advisory Committee which is using the 2010 Business Plan recommendations as a starting point to develop a short- and long-term roadmap. Third, the Governor appointed Michael Jordan as COO of state government. Leadership at the top is critical for creating a regulatory system and culture that is geared toward outcomes and that emphasizes certainty and efficiency. Fourth, Associated Oregon Industries, recognizing the complexity of the topic, has committed to a long-term initiative to explore ways to measure and improve regulatory processes.

By the end of 2012, Oregon should have an action plan for moving to a streamlined, efficient, and outcomes-based regulatory system for environmental permitting.

While regulatory inefficiency affects many types of businesses, our recommendations are focused on the traded sector.

Regulatory Streamlining Recommendations for 2012

- *Business and economic development communities should work with the Governor's Natural Resources Advisor and the effected agencies to implement SB 766. The legislation calls for up to ten industrial projects per biennium to receive expedited permitting as well as the establishment of 5 to 15 Regionally Significant Industrial Areas (within three years) that will be protected from unnecessary local regulations.*
- *State leaders should implement the initial recommendations of Governor Kitzhaber's Regulatory Streamlining Advisory Committee, released in December 2011, which begin to address some of the eight recommendations included in last year's Oregon Business Plan.*
- *By the end of 2012, Oregon should have an action plan for moving to a streamlined, efficient, and outcomes-based regulatory system for environmental permitting. The final proposal of the Governor's Regulatory Streamlining Advisory Committee should serve as this plan. Development of this plan should include surveying businesses and economic development professionals to identify the most significant regulatory burdens, benchmarking Oregon against itself and other states in terms of time and cost to permit particular activities, and identifying best practices inside and outside of Oregon. For the regulatory processes identified as the biggest impediments to economic activity, the plan should include recommendations for how Oregon can achieve the environmental outcomes desired by the Legislature with greater certainty and timeliness for the regulated community. When activities are regulated by multiple agencies and/or jurisdictions, the plan should recommend a way to eliminate overlap and achieve better outcomes. The plan should include an ongoing process for continuous improvement, including determination of whether specific regulatory goals are still valid and whether our processes for achieving those goals are as effective and efficient as they can be.*
- *Oregon should take immediate action on a few key regulatory reform opportunities. For example, evaluate the recommendations of the ODOT/DLCD working group on highway mobility standards and the Transportation Planning Rule. If the proposed revisions are well received by*

the business and economic development community, implement the recommendations. If not, pass legislation in 2012 that makes these rules more accommodating to economic development.

4. Make industrial land ready to support creation of high-wage jobs.

In the last decade Oregon made good progress identifying shovel-ready lands and certified sites throughout the state. However these initiatives largely took advantage of "low-hanging-fruit." With the easiest sites taken, Oregon again finds itself short of industrial lands that can be developed in a timely manner, which is costing us jobs, incomes, and tax revenues in communities across the state. If we want to exploit our advantages as a good place for international trade and manufacturing, we must address three key issue: land supply, regulatory/permitting barriers, and infrastructure. These are outlined in more detail in last year's Business Plan.

The importance of a regional approach. Economies are regional in nature, yet in most regions our current land use system uses cities as the primary unit to determine industrial land needs. The population and growth projections of an individual city may have little to do with region-wide opportunities to site industrial facilities. When a company is looking to locate in a particular region, it typically considers its needs (workforce talent, cost advantages, quality of life, and other factors) from a regional rather than a city perspective.

With the easiest sites taken, Oregon again finds itself short of industrial lands that can be developed in a timely manner, which is costing us jobs, incomes, and tax revenues in communities across the state.

Here are some examples of a regional approach.

- Working with DLCD, the major municipalities and three counties in Central Oregon teamed up to conduct a Regional Economic Opportunity Analysis (REOA) that evaluated large-lot industrial land needs on a region-wide basis. In November, 2011 Deschutes County adopted a Comprehensive Plan amendment to officially recognize the REOA.
- The Portland metro region launched a public-private initiative that created a working definition of development "readiness" from the developer's perspective, conducted a comprehensive inventory of large-lot industrial sites for new development, analyzed net usable acreage considering slope, wetlands, flood plain and other restrictions, and considered levels of infrastructure support.
- In the Willamette Valley, partners have designed a regional wetlands general permit to streamline state and federal wetlands permitting requirements. Every parcel of 100 acres or larger in Linn and Benton Counties has significant wetlands issues.

Development-Ready Land Recommendations for 2012

- *Oregon leaders should implement the regulatory and permitting reform recommendations outlined above, including the provisions of SB 766. Regulatory barriers and permitting delays remain a key challenge to developing industrial lands.*

- *Regional stakeholders should accelerate efforts to address industrial land deficiencies. For example:*
  - *Central Oregon should execute a Department of Land Conservation and Development grant to finalize a regional governance authority with the Central Oregon Intergovernmental Council to oversee Central Oregon's REOA and take the additional steps outlined by the REOA partners. It is important that the region undertake a buildable lands inventory (BLI) for one or two Central Oregon municipalities to identify suitable large-lot industrial sites. The BLI can then serve as a template that other jurisdictions in the region can utilize. Throughout this process Central Oregon can provide a "tool kit" based upon lessons learned and accomplishments so they can be replicated in other parts of the state.*
  - *In the Portland metro region, project partners should complete Phase 2 of the Portland metro region's Regional Industrial Lands Inventory, including analysis of barriers and costs to bringing pipeline parcels to development ready status.*
  - *Also in 2012 in the Portland metro region, the Community Investment Initiative Leadership Council should present its plan for regional infrastructure financing that includes industrial lands readiness as a top priority. The council should use the Regional Industrial Lands Inventory, mentioned above, as it develops its plan.*
  - *In the Willamette Valley, state agencies, the Governor's Office, and local governments should advance the regional industrial wetlands permit project. Furthermore, in 2012, leaders in the Willamette Valley should develop a comprehensive regional industrial land strategy similar to the one being developed in Central Oregon. Region-wide, the Willamette Valley is Oregon's "Research Triangle" with two excellent universities, multiple community colleges, and a history of manufacturing expertise. Industrial land constraints are a key factor holding this region back from becoming the economic powerhouse it can and should be for the entire state of Oregon.*

5. Actively manage Oregon's public forests to restore forest health, improve rural economic vitality, and increase utilization of biomass energy.

Oregon should be treating 500,000 acres per year of federal forests over the next 20 years to improve forest health, increase fire resiliency, and help prevent catastrophic fires. This would create hundreds of jobs by supplying a reliable source of raw material for Oregon's remaining mills and the fledgling biomass industry.

Gov. Kitzhaber's recent policy speech to the Oregon Board of Forestry calls for a comprehensive approach to management of state, federal, and private lands. This includes increasing state involvement in finding practical ways to increase active management of our federal forests. The Nature Conservancy and other experts estimate that Oregon should be treating 500,000 acres per year of federal forests over the next 20 years to improve forest health, increase fire resiliency, and help prevent catastrophic fires. This would create hundreds of jobs by supplying a reliable source of raw material for Oregon's remaining mills and the fledgling biomass industry.

The Federal Forest Advisory Committee's ad hoc Implementation Working Group has become a critical hub in advancing federal forest health in Oregon. The Federal Forest

Advisory Committee laid out a vision and recommendations in its 2009 report and the working group has been crafting next steps. The Working Group's proposed steps for 2012 constitute the recommendations of this jobs item.

Forest Management/Biomass Energy Recommendations for 2012

- *Business, environmental and public sector partners should design a plan to achieve the goal of treating 500,000 acres of federal forests per year over the next 20 years, which experts recommend is necessary to restore the health and resiliency to our federal forests.*
- *They should support the plan with a quantitative and qualitative analysis of the economic and environmental impact of such treatment, address funding strategies, market impacts, agency staff capacity, state versus federal leadership, regulations and other questions.*
- *They should support existing and new multi-stakeholder forest collaboratives to engage communities, build trust and broaden agreement on proposed treatments to advance forest restoration at a landscape scale, reducing the risk of catastrophic wildfire while delivering reliable wood and fiber supplies to local mills and businesses engaged in biomass-to-energy uses.*
- *They should work with Forest Service to test pilot approaches to NEPA to realize efficiencies and quicken the pace of forest restoration projects.*
- *They should advocate for new and increased public funding strategies to accelerate planning and implementation of forest restoration treatments on federal lands.*
- *Gov. Kitzhaber and the Western Governors Association should urge Congress to support $40 million in annual federal funding for the Collaborative Forest Landscape Restoration Program.*

In addition to these steps, there are others to be taken in 2012 by numerous forest sector stakeholders to increase utilization of the state's public timber resources, improve rural economic vitality and boost biomass utilization. These include:

- *Led by Oregon's congressional delegation, Oregon forest sector stakeholders should agree on, and advocate for, a unified Oregon position on the future of the O&C lands, looking at all options to maximize economic, environmental and social benefit that these lands can and should generate for Oregon's citizens.*
- *Oregon's forest sector stakeholders and congressional delegation should continue to press the EPA to follow the lead of the Oregon DEQ and define biomass as a carbon neutral source of energy. The EPA is engaged in a three-year study of this issue. It is important that the EPA and other key agencies conduct a transparent and unbiased review with broad stakeholder input. This review must recognize that the forest carbon cycle is a dynamic, ongoing process that occurs across broad landscapes without a specific start and end date.*
- *Oregon's forest sector stakeholders, state leaders, and Congressional delegation should do everything in their power to assert the validity of the current regulatory framework including the Oregon Forest Practices Act, and press to overturn the Ninth Circuit Court of Appeals ruling that would change the Environmental Protection Agency's practice of 35 years – that forest roads do not need to obtain a National Pollution Discharge Elimination System (NPDES) permit.*
- *The Oregon Department of Forestry must implement the new management plan for the Elliot State Forest, approved by the Oregon Board of Forestry in November 2011. The new plan:*
  - *Increases timber production with sustainable targets.*
  - *Expands revenues to public schools.*
  - *Provides for conservation areas that are protected from timber harvest.*

- *Supports the economies of coastal Oregon and the Willamette Valley by generating several million dollars in additional forest-products sector payroll in southern Oregon and the mid-Willamette Valley, as Elliott State Forest logs are processed in local mills.*

6. Accelerate energy efficiency efforts.

Energy efficiency creates jobs both directly (e.g., conducting retrofits) and indirectly (e.g., reducing energy expenditures that can be reinvested in the economy), and is by far the best way to meet our energy needs and reduce greenhouse gas emissions.

Energy Efficiency Recommendations for 2012

- *The Oregon Department of Energy, in partnership with applicant school districts, should begin implementing the provisions of HB 2960 (Cool Schools), which provides grants and loans to K-12 schools for making energy-saving building retrofits and fuel efficiency improvements to school bus fleets.*
- *The business community should work with The Governor and his Ten Year Energy Plan team to develop a strategy to capture additional energy efficiency in the residential, commercial, and industrial sectors.*

Maintaining and enhancing Oregon's transportation infrastructure increases our advantage as a state that makes and exports things.

7. Advance infrastructure projects that create jobs and strengthen our economic foundation.

Investments in transportation and other 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 provide the infrastructure necessary to support jobs in industries such as manufacturing, agriculture, and retail because they improve access to suppliers and markets. State infrastructure investments also leverage other public and private dollars that are crucial to development.

Maintaining and enhancing Oregon's transportation infrastructure also increases our advantage as a state that makes and exports things. The Portland/Vancouver area exports one fifth of its economic output, ranking second in the U.S. Export-supported jobs linked to manufacturing account for an estimated 5.1 percent of Oregon's total private-sector employment. Nearly one-quarter (23.3 percent) of all manufacturing workers in Oregon depend on exports for their jobs. In 2008, this amounted to 700,000 jobs and generated $29 billion in personal income. Oregon's businesses export $17.7 billion in goods annually. Those dollars are re-circulated through local businesses and through tax revenues that support public services.

Infrastructure Recommendations for 2012

- *2009 Jobs and Transportation Act projects should be delivered on time and on budget. A list of those projects, timelines, and budgets can be found at the ODOT website, http://www.oregon.gov/ODOT/JTA/index.htm.*
- *During 2012, Oregon should demonstrate to the federal government its plan to finance its share of the Columbia River Crossing project, with the project breaking ground in 2013.*

- *Connect Oregon IV projects should be selected and construction should be under way in 2012, bringing statewide investment in air, rail, transit, and marine infrastructure to $340 million; groundwork should be laid for Connect Oregon V in 2013.*
- *In 2012 the Governor, legislators, and stakeholders should propose a strategy for the long-term financing of non-roadway and multi-modal transportation (air, rail, marine, transit, bike, and pedestrian) to be presented to the 2013 Legislature. Oregon's business community should fully participate in discussion and review of the strategy at the December, 2012, Business Summit.*
- *The Oregon Department of Transportation (ODOT) should begin implementation of the Oregon Freight Plan in consultation with the Oregon Freight Advisory Committee and other key stakeholders and report on progress at the 2012 Summit. The plan was adopted by the Oregon Transportation Commission in June 2011. Among its key action items:*
    - *Identify and communicate the location of bottlenecks to infrastructure owners and stewards.*
    - *Acquire freight system stakeholder input on the bottlenecks in the freight system.*
    - *Develop performance measures to help make choices about where to invest.*
    - *Continue discussions with stakeholders and the public to identify funding sources for Oregon's transportation system.*
- *During 2012, the Road User Fee Task Force should follow the direction set by the 2011 Legislature to develop additional pilot projects and approaches to collecting a mileage fee, and recommend a pilot project or projects to the OTC and ODOT for implementation. This work is critical to move Oregon away from the gas tax, which is losing its purchasing power as cars become more fuel efficient.*

8. Prepare Oregonians for high-demand careers.

Among its education proposals, last year's Business Plan recommended several targeted investments to advance engineering and technical education as well as certifying the literacy and math skills of Oregonians through the Career Readiness Certificate. The Legislature adopted all of these recommendations.

The agenda for the year ahead is to continue implementing last year's recommendations as well as those below. Even during times of high employment, jobs go unfilled because too many individuals in the workforce lack specific skills needed in the job market. As the economy grows, targeted career education and training will become increasingly important.

Career Preparation Recommendations for 2012

- *Oregon should rapidly implement the Career Readiness Certificate, with a goal that 20,000 Oregonians be certified by year end, 2012.*
- *The Workforce System and other business and workforce advocates should develop a series of career related investment opportunities for consideration by the newly created Education Investment Board.*
- *The Workforce System should study and respond to the specific needs of Oregon's industry clusters and sector initiatives to improve job opportunities for Oregonians and support businesses competitiveness.*
- *The newly created Back to Work Oregon program should achieve it mission to put 1,325 Oregonians back to work by June 30, 2012. If it does, advocates should develop a funding plan for an additional year of the program.*

- *Business and workforce advocates should identify resources to begin to operate the Employer Workforce Training Fund in June 2012, and develop a plan for fully funding the program to be implemented in 2013.*

9. Secure additional water from the Columbia River for irrigation and job creation in a way that increases populations of endangered salmon.

Farmers and environmentalists have a unique opportunity to create thousands of jobs while improving salmon runs in the Columbia River. It requires partnering on more sophisticated methods for mitigating environmental impact, and withdrawing, storing, and using water where the Columbia River flows along northeast Oregon. At last year's Summit we observed that current Water Resources Board rules preclude withdrawing water from the Columbia for irrigation and other beneficial uses between April 15 and October 1, even when flows are so high that water is spilling over the dams. We recommended revising this policy to allow for increased withdrawals during high flow years. It turned out that 2011 was such a year.

While this specific step would bring economic benefits, discussions last year among farmers, environmental interests, and the Governor's office pointed to an even larger opportunity. In reality, withdrawing an additional small fraction of the Columbia water flow could result in thousands of jobs and hundreds of millions of dollars of economic activity in Northeast Oregon. At the same time, with appropriate timing of the withdrawals, along with mitigation funding, salmon runs could actually be improved.

There are many feasible measures on this issue that can help fish, farms, families, and the Oregon economy. Stakeholders need to come to the table to work out solutions.

Columbia River Water Use Recommendations for 2012

- *The Governor, working with stakeholders, should draft a policy by April 30, 2012, on how to simultaneously increase access to Columbia Water in support of agriculture and increase the return of endangered salmon.*
- *Based on the strategy, the Water Resources Board and other relevant agencies should adopt specific steps to be implemented in 2012. One example would be to authorize water withdrawal during the summer when flows are high.*
- *Stakeholders should stage, and implement additional measures as opportunities present themselves.*

10. Make targeted tax changes to spark growth.

Understanding the severe fiscal challenges facing Oregon, these steps will spark economic growth to create jobs and increase revenue. See "Revamp Oregon's Tax and Revenue to Stabilize Funding and Promote Economic Growth," above.

The Oregon Business Plan Thanks the Following Sponsors

PGE
Portland General Electric

Regence
The Regence Group is an Independent Licensee of the Blue Cross and Blue Shield Association

Schnitzer Steel Industries, Inc.
Since 1906
Strength. Sustainability. Success.

Pacific Power

business oregon

Oregon Health & Science University
OHSU

Oregon Forest Resources Institute

ESCO

us bank
Five Star Service Guaranteed

Forest Capital Partners, LLC

AGC Oregon Columbia Chapter
Associated General Contractors

The Standard

aidec
reliablecreativesolutions

PDC Portland Development Commission
www.pdc.us

Hoffman Construction Company

OSU
Oregon State University

NW Natural

ORLA
Oregon Restaurant & Lodging Association

Wells Fargo

Portland Business Alliance
Leading the way

siltronic
perfect silicon solutions

travel Portland

Liberty Northwest.
Member of Liberty Mutual Group

Ochoco Lumber Company

Papé

Oregon Solutions

SolarWorld

Legacy Health

Trail Blazers

Blackledge Furniture & Sleep Center