

OREGON BUSINESS PLAN STEERING COMMITTEE

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S. Brooks & Associates

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Greg Ness, Greater Portland Inc., The Standard

Wally Van Valkenburg, Oregon Business Development Commission, Steel Rives

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Brett Wilcox, At-large Member, Summit Power Alternatives

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Ron Fox, Southern Oregon Regional Economic Development, Inc.

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

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ARE WE READY TO GROW AGAIN?

Fix PERS. Invest wisely in education. Build the bridge. Among important initiatives in health care, public finance, forestry, and others, these are critical and especially ripe for action in the Oregon Business Plan for 2013. They're also a measure of our will to address the question on the cover of this Policy Playbook: Are we ready to take action on these and other initiatives to get the Oregon economy moving again in the right direction? Are we ready to grow?

The need could not be more apparent. State unemployment hovers at 8.6 percent, and it's much higher in rural regions. Our per capita income is stuck 9 points below the national average and it's lower in rural Oregon.

In our income tax-heavy revenue system, when employment and income tax receipts shrink, so do public budgets for education, safety, and other services. Compounding the problem, public costs are rising in health care, social services, and corrections – and in unsustainable benefit arrangements in the Public Employees Retirement System (PERS). These costs further squeeze budgets for vital public services – especially education.

The solution is to grow more jobs that pay well and to get the best return for public dollars.

Getting Back on Track

That has been the focus of the Oregon Business Plan since it began in 2002. This effort has accelerated the past two years through a mix of initiatives to create jobs and redesign the way we deliver public services. These initiatives, all in various stages of work, are summarized in the matrices on pages 6 and 7 and presented in greater detail at the Oregon Business Plan website, www.oregonbusinessplan.org.

As described below in these pages, Business Plan initiatives are intended to improve the conditions for economic success in Oregon, in particular well educated people, quality of life, functional infrastructure, competitive business costs, and innovation. Many of these initiatives are long-term, but some of them also serve as interventions intended either to spur job growth in particular industries or regions, or to stop the damaging slide in our ability to invest in education. Page 3 describes how particular initiatives to stimulate job and income growth

and to boost public sector productivity are intended to raise more money to invest in education.

All of the Business Plan initiatives for 2013 are important, but these are the most urgent:

PERS. We must make further repairs to PERS retirement provisions that are unfunded, unsustainable, and a threat to public budgets that fund essential services from education to law enforcement to the social safety net.

Education. We have a once-in-a-generation opportunity to redesign public education so it produces better outcomes for both our students and our economy. Our education system evolved to suit the needs of another era and can't be fixed by money alone or simply "trying harder." It needs to be redesigned. We've started that process and must stay the course.

The Bridge. We've spun our wheels long enough on the Columbia River Crossing project. The old bridge is a bottleneck to commerce and economic growth. If we don't act soon, we'll lose out on federal funding and may not have another chance for decades to address this need.

Fix PERS.
Invest Wisely in Education.
Build the Bridge.

A Word of Thanks To Our Public Leaders

As we reach our tenth year of working together on the Oregon Business Plan and the Leadership Summit, business leaders wish to acknowledge and thank our public sector leaders for being such great partners. No other state approaches this level of public-private collaboration to solve problems and build a durable economic future.

Together, we have been especially successful in advancing regional job creation and significant overhaul of public services, especially in education and health care. These efforts are vital to support and grow businesses and good paying jobs – and to improve the lives of Oregonians.

To all of our elected officials and to our agency partners, we extend a heartfelt thanks.

OREGON BUSINESS PLAN FRAMEWORK

Goal: Quality Jobs in Every Region of Oregon, resulting in:

- 25,000 net new jobs per year (Oregon has been shy of that mark.)
- Per capita income above the national average by 2020 (It is now 91 percent of national average.)
- Reduction of Oregonians living in poverty to less than 10 percent by 2020 (It is now 14 percent.)

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

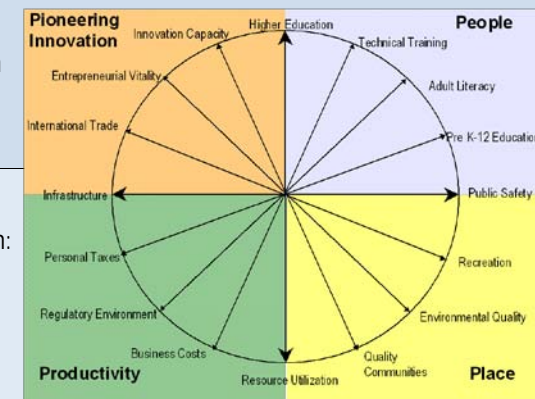
Footwear, Apparel and Outdoor Gear

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

Traded Sector Drives Growth



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.

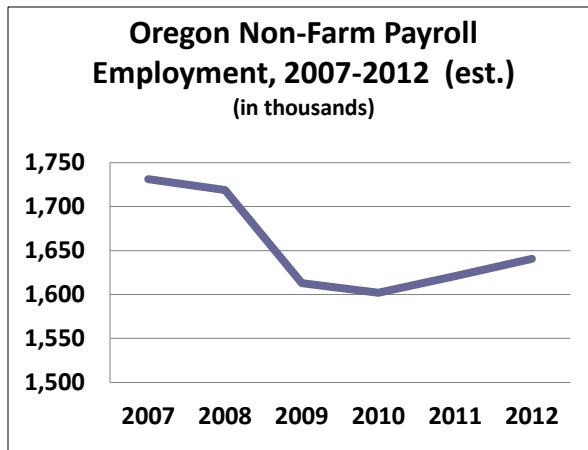
Place: A high quality of life that attracts and retains talented people.

Pioneering Innovation: A culture of research, commercialization and innovation in product and process design.

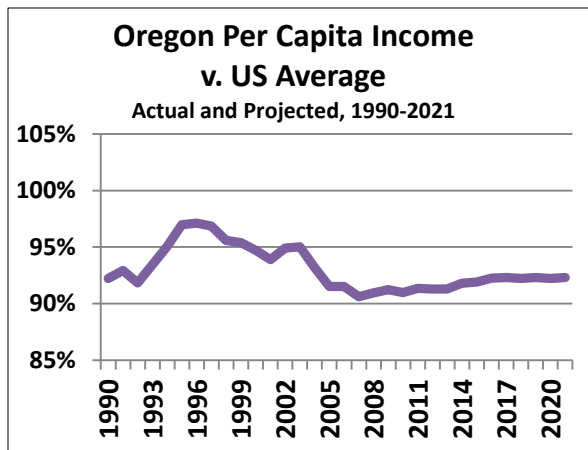
Initiatives: Using this framework the Business Plan presents a set of initiatives that support the vision and strategy. The initiatives change over time as conditions evolve and opportunities arise. Using the vision and strategy as a guide, a key role for the Business Plan is to help identify the work 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.

HOW IS OREGON DOING?

Oregon is digging out. Five years since the beginning of the Great Recession, hiring is on the rise, although, as the figure below indicates, it's been slow to return to pre-recession levels. Household balance sheets have had time to improve. The U.S. housing and consumer markets have stabilized and appear poised for growth. That's welcome news for our forest products and residential construction industries. The state economist sees job growth accelerating in 2013. Assuming global economic conditions or our national fiscal challenges don't worsen, Oregon's conditions should favor steady gains through end of the decade.



Even with improving economic conditions, creating jobs is hard work. The part that's even harder is creating well-paying jobs that raise per capita income, reduce poverty, lower dependence on public services, and provide additional resources for critical investments in education. As illustrated above, Oregon's per capita income declined from the mid 1990s through 2007 when it represented only 91 percent of the U.S. average. It has grown slowly since then, and the state forecasts only a modest improvement – to 92 percent – by 2021.

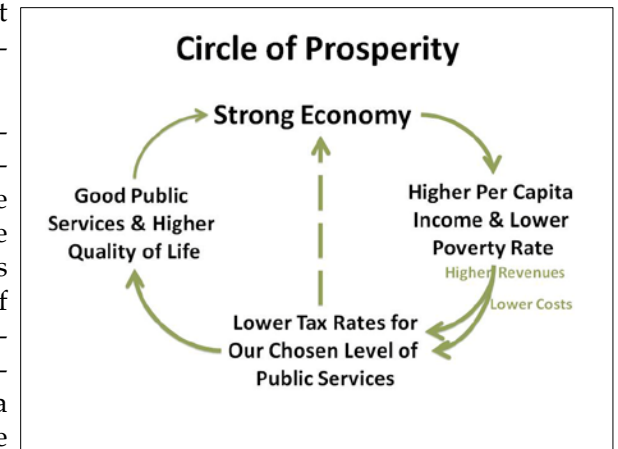


That's not acceptable. The Business Plan has set related goals of creating good jobs to elevate Oregon to U.S. average per capita income by 2020 and reducing the poverty rate to 10 percent. Achieving these outcomes is vital to Oregon's future.

OUR CHALLENGE AND STRATEGY

The Oregon Business Plan framework on the previous page shows a vital connection between the public sector and the health of our economy. Many of the conditions described in the Four Ps for prosperity are influenced by the quality of public services. We have described this relationship as a "circle of prosperity" in which a strong economy and good public services dynamically benefit one another (see figure at right).

Oregon enjoyed a vigorous circle of prosperity up through the mid 1990s, but in the first decade of this century we fell out of balance and into a circle of scarcity characterized by per capita income well below the national average and far below Washington.

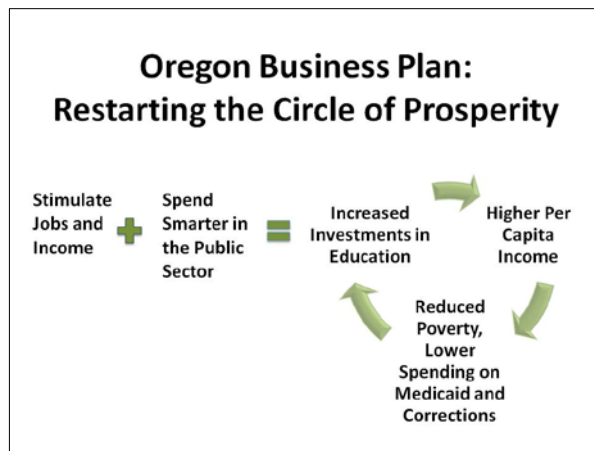


Our system of public finance is primarily to blame. Heavy reliance on income taxes creates a revenue system that is volatile. In downturns revenue receipts drop, requiring cuts in public services, including education just when it is in the greatest demand. That's one of the ways our reductions in postsecondary education spending over this past decade have undermined our economic prospects. Moreover, high personal income taxes and capital gains taxes dampen economic activity by encouraging entrepreneurs, investors, and professionals to live elsewhere. Add to this a large, unfunded pension system that is further devouring education budgets. These factors are a toxic mix.

Our ambivalence about economic growth and business is also a problem. During recessions and high unemployment, the public and elected officials generally support economic growth. However during good times, anti-growth sentiments often well up. The fact is, investments need to be made in the good times to help carry the community forward in more difficult periods.

Getting Oregon Back on Track

Two years ago, we reorganized the Oregon Business Plan’s initiatives with the intent to restart the circle of prosperity for Oregon. The figure below illustrates the plan. First, pursue an aggressive jobs agenda. This offers ideas in nine categories, ranging from permit streamlining to better use of our forest and water resources. These actions on jobs also give a boost to public sector revenues. As we create more jobs, more tax revenues come in for schools and other vital services.



The second part of the restart plan is to redesign public services and the way we pay for them to get more value from the dollars we invest. In particular we must address two looming trends: 1) arrest the growth in Medicaid and corrections spending, which commands an ever larger share of the state budget at the expense of education, and 2) address the growing costs of employee compensation associated with health care and with with the state’s Public Employees Retirement System (PERS).

This restart plan is aimed at putting more dollars into education and increasing learning quality and degree attainment. Better education outcomes will raise incomes and reduce poverty as the economy grows, returning Oregon to a circle of prosperity.

Over the past two years, Oregon has made notable headway with this strategy, as the initiative matrices on pages 6 and 7 illustrate. Oregon policy makers have rolled up their sleeves and addressed some of Ore-

gon’s most pressing challenges in education, health care, and job creation. Yet, hard work remains.

AGENDA FOR 2013 AND BEYOND

All of the initiatives itemized in the matrices that follow are important. But three are urgent because they have strategic leverage and because there’s a small window of opportunity to address them. In a nutshell, they are:

Fix PERS.

Invest Wisely in Education.

Build the Bridge.

1. Fix PERS. All of the savings generated by Oregon’s efforts in public service redesign could be swamped by our growing public employee pension liabilities. The PERS board has determined that it must increase PERS employer contributions by 45 percent, or \$2 billion, during the 2013-2015 biennium to address an unfunded liability of \$16 billion. The system’s actuaries predict that even higher contribution rates will persist for the foreseeable future unless the system is reformed.

Oregon’s ongoing problems with its pension system are rooted in complex, poorly understood plan designs, successive increases in benefits beyond what was originally intended or needed for adequate retirement, and inherently volatile capital markets. Problems and the range of possible solutions are well documented and will not be repeated here¹. Background is available at the Oregon Business Plan website.

There are numerous reform options. In choosing among them, the following principles should be applied:

- **Fairness to public employees.** Affected beneficiaries should have an adequate retirement income for a given level of public service. Experts generally agree that an adequate retirement benchmark is 70 to 80 percent of final average salary, inclusive of Social Security income. Today PERS members with 30 years of service retire, on average, with between 95 and 124 percent of final average salary when taking into account base retirement, IAP, and Social Security.

¹ See, for example, Milliman (2012), City Club of Portland (2011), Pew Center on the States (2012), ECONorthwest (2007)

- **Sustainability.** The reform should reflect best actuarial practices and support the plan’s long-term viability.
- **Fairness to the public.** Chosen reforms should meaningfully reduce the system’s unfunded liability and provide fiscal relief in the 2013-2015 biennium

The reforms advocated in the Business Plan are consistent with these principles and would save hundreds of millions of dollars during the next biennium and beyond, translating into more teachers, full school years, and other improvements to public services.

2. Invest Wisely in Education. Oregon has embarked on a far-reaching effort to redesign the way we deliver education. With Governor Kitzhaber’s leadership, the Legislature has set ambitious goals to increase postsecondary education attainment, and it has authorized sweeping redesign in state governance and budgeting to support great teaching and learning – and better outcomes.

The strategy aims to avert a disturbing trend. High school and college completion rates show that a quarter to half of our students are not sufficiently motivated or able to stay in school, and younger cohorts are on a trend to achieve less education than the generation now leaving the workforce.

Our current system was not designed to meet our ambitious attainment goals. We need a new model so our education system can respond to individual needs of a changing student population. Students must be engaged in learning that is personalized, customized, and flexible in pace and setting. Focus must shift from seat time and standardized assessments, to demonstrated proficiency of knowledge and skills. Such a shift in teaching and learning shows tremendous promise, but it requires a substantial investment in structures, policies and cultures to flourish at scale.

Oregon 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 agenda presented for education in the policy matrix will advance over the next few years. For the immediate benefit of the economy, two components stand out: STEM and higher education.

STEM. Business leaders have formed a coalition to advocate ambitious attainment goals for education in science, technology, engineering, and math (STEM). The coalition recommends that the Governor and the Oregon Education Investment Board adopt funding strategies and policies to advance these goals in the 2013-15 budget. Achieving these goals will meet industry needs for technically trained people – engineers, scientists, and technicians, as well as aspirants in the health occupations. The graphic at right shows the coalition’s goals will make a big difference in raising the incomes of Oregonians.

**By the Numbers,
STEM Investment in Oregon:**

2X student proficiency

+

2X postsecondary graduates

=

- *\$9 billion more personal income*
- *\$1.4 billion more public revenue*
- *\$389 million more General Fund revenue*
- *62% reduction in per capita income gap*

Higher Education. Oregon has reduced funding for community colleges and universities over the past decade even in the face of higher demand. We must channel more dollars into advanced education as the economy grows. How we invest matters. Oregon should develop a framework for all postsecondary education that coordinates funding for community colleges, universities, and student aid in one place. It also should provide greater flexibility to universities that want self-governance, allowing them to be more nimble in responding to opportunities and raising funds from a variety of public and private sources.

3. Build the Bridge. After a decade of studies and deliberation, it is time to build a new I-5 bridge across the Columbia River. The Oregon Business Plan supports the Columbia River Crossing as well as the larger state transportation agenda of which it is a part. Free flow of people, goods, and services is vital to the Portland region and state economy. The old bridge is a chokepoint that hurts commerce in particular by impeding freight.

Federal officials have indicated the CRC project is a high funding priority. The Legislature should commit to funding Oregon’s share of the CRC project to secure the federal government’s project investments in anticipation of a 2013-2014 construction start date.

HIGHLIGHTS: OREGON BUSINESS PLAN PUBLIC SERVICE REDESIGN INITIATIVES – 2013

Initiative and Goal	Reform the state budget process to transparently align investments with long-term goals and desired outcomes	Redesign Oregon's education system to ensure that by 2025, all Oregonians have a high school diploma, 40% at least a bachelor's degree and 40% at least an associate's degree or technical credential	Redesign Oregon's health care system to improve the health of Oregonians while stabilizing costs for individuals, businesses, and the public sector	Reform Oregon's public safety system, in particular curbing prison growth, by investing in proven, effective, and affordable methods of reducing crime.	Reform public employee compensation to address unsustainable growth in costs while ensuring competitive compensation for public employees	Reform Oregon's revenue system to create stable and adequate funding for public services and effective incentives for economic growth
Indicators of Success	<ul style="list-style-type: none"> See desired outcomes for each of the <u>six key policy areas</u> in the Governor's budget 	<p>Achievement at ages 5,9, and 13; diploma/degree attainment at 18 and 25, as tracked by the Oregon Education Investment Board</p>	<ul style="list-style-type: none"> Medicaid cost growth 2%/year under projected cost trend Private insurance costs growing at rate of general inflation 	<ul style="list-style-type: none"> Projected prison growth and associated costs averted by stabilized or reduced crime and recidivism rates 	<ul style="list-style-type: none"> Total cost of compensation in line with other states and private sector PERS fully funded and employer rates reduced 	<ul style="list-style-type: none"> Revenue stability Increased investments in education Competitive tax rates
Recent Progress	<ul style="list-style-type: none"> Governor's 2013-2015 budget built using new outcome-based methods and purchasing teams 	<ul style="list-style-type: none"> Legislature passed <u>major bills in 2011 and 2012</u> <u>Rudy Crew hired</u> as Chief Education Officer Oregon received NCLB waiver 	<ul style="list-style-type: none"> Legislature created Coordinated Care Organizations (CCOs) and health insurance exchange ("Cover Oregon"). Oregon landed \$1.9 billion from the federal government to support reform efforts More than a dozen CCOs are up and running 	<ul style="list-style-type: none"> Bi-partisan, cross-sector <u>Commission on Public Safety</u> has been developing reform ideas <u>Pew Center for the States</u> providing technical assistance Crime rates are down and <u>polling</u> shows support for reform 	<ul style="list-style-type: none"> Significant attention drawn to PERS crisis by media and politicians PSU completed Total Cost of Public Sector Compensation study 	<ul style="list-style-type: none"> Governor has convened business and labor groups to consider common agenda on revenue reform
Next Steps	<ul style="list-style-type: none"> Build support among legislators for new process. Work with Ways and Means to base decisions off 10-yr projections of expenditures and revenues Identify lessons learned and improvements for next cycle 	<ul style="list-style-type: none"> Make five key investments to support 1) educators 2) parents 3) new school models 4) third grade reading and 5) STEM Overhaul funding models for early childhood, ESDs, special education, ELL and postsecondary education to promote innovation and flexibility. Reorganize state education agencies to help them fulfill core functions 1) investing and policy 2) building clear learning pathways 3) creating great educators and 4) communicating with public Grant autonomy to U of O and PSU, and move post-secondary funding policy responsibility to a single state board 	<ul style="list-style-type: none"> Continue to launch and support CCOs Get ready to launch Cover Oregon Adopt medical malpractice/patient safety reform Patch 2013 gaps in Oregon Health Plan financing and develop a long-term financing plan Mitigate market shock of Affordable Care Act Encourage public and private employers to adopt purchasing, care and benefit models that encourage choice among providers, promote wellness, and incent high quality, lower cost care 	<ul style="list-style-type: none"> Adopt package of public safety reforms that the Commission submits to the Governor and Legislature in December 2012. Avoid the need to bond for and build more prison beds in the biennium 	<p><u>PERS</u></p> <ul style="list-style-type: none"> Use market rate to annuitize Money Match Cap the COLA Eliminate 6% requirement Reduce pension spiking Reduce assumed rate Fix the tax remedy <p><u>Health Care</u></p> <ul style="list-style-type: none"> Continue progress in stabilizing PEBB/OEBB rates through fixed dollar defined contribution and ongoing efforts to implement new care models, value-based benefit design, and improved health <p><u>Overall</u></p> <ul style="list-style-type: none"> Align total cost of comp with other states and the private sector 	<ul style="list-style-type: none"> Form coalition to examine options and engage the public on revenue reform ideas Draft a proposal for consideration by legislators and voters

To see any of these initiatives in greater detail, visit www.oregonbusinessplan.org

HIGHLIGHTS: OREGON BUSINESS PLAN JOBS INITIATIVES – 2013

Initiative and Goal	Transportation Infrastructure: Create jobs today and in the long-run by improving our transportation infrastructure and access to markets	Innovation: Boost research, commercialization, new business formation, & productivity of existing companies	Capital Access: Ensure Oregon companies have access to debt and equity financing to fuel their growth	Regulation & Permitting: Increase certainty for business by adopting clear, consistent regulations and permitting processes	Industrial Land Supply and Readiness: Ensure Oregon has an adequate supply of right-sized, market-ready industrial land	Forest Health + Biomass: Improve forest health and rural economies while preventing fire through active forest management	Energy: Maintain Oregon's competitive advantage in energy costs while creating jobs and slowing carbon emissions	Workforce: Employ targeted strategies to close the gap between skills Oregonians have and skills employers need	Water: Secure additional water for fish and farms in the Umatilla Basin
Recent Progress	<ul style="list-style-type: none"> 2009 Jobs and Transportation Act invested \$1 billion in transportation improvements including 37 critical projects statewide Connect Oregon I-IV funded critical non-road multi-modal transportation initiatives that will improve the flow of commerce and remove delays 	<p>2011-2013 Oregon Innovation Plan invested in three signature research centers (ONAMI, BEST and OTRADI) and three industry initiatives (wave energy (OWET), food processing, and electric vehicles (Drive Oregon))</p>	<ul style="list-style-type: none"> Legislature passed Oregon Investment Act OCF, Meyer Trust and OST released analysis of "capital gaps" in Oregon and foundations have launched some initiatives to address them The Portland Seed Fund and regional angel networks have played an increasingly important role in addressing this issue 	<ul style="list-style-type: none"> Regulatory Streamlining Roadmap delivered to Governor in August 2012 after extensive statewide outreach. Some legislative gains made recently on linear permitting, industrial lands, and wetlands. Several streamlining pilot projects under way 	<ul style="list-style-type: none"> Report that framed industrial lands challenges and opportunities in Portland region Central Oregon agreed on plan to bring in new industrial land Stakeholder group has identified a streamlined process for future UGB expansions SOREDI 50 year land supply agreement 	<ul style="list-style-type: none"> Oregon received millions in federal grants for biomass projects and forest collaboratives New economic study shows significant benefits of restoring federal forests O&C lands panel convened Governor signed executive order supporting wood products 	<ul style="list-style-type: none"> Oregon has maintained its energy cost advantage while reducing growth in carbon emissions and creating jobs in the energy sector 	<ul style="list-style-type: none"> Over 17,000 National Career Readiness Certificates (NCRC) were issued as of June 30, 2012 1,100 Oregonians hired as of June 30 via Back to Work(BTW) Oregon 	<ul style="list-style-type: none"> 2012 legislation drew needed attention to this issue In April Governor Kitzhaber announced an <u>Oregon Solutions project</u> to increase access to water for farmers and for in-stream needs
Next steps	<ul style="list-style-type: none"> Adopt an investment package that includes Oregon's share of funding for the I-5 bridge replacement Pass Connect Oregon V multi-modal bonding program at least the level included in the Governor's budget Take steps to create a permanent non-highway funding stream Move forward innovative infrastructure financing models such as the West Coast Infrastructure Exchange and the Community Investment Initiative 	<p>The Legislature should adopt the 2013-15 Oregon Innovation Plan, continuing funding for ONAMI, OTRADI, BEST, OWET and Drive Oregon, and adding two new initiatives: An Unmanned Aerial Systems (UAS) Center of Excellence and a Portland Incubator Experiment/Oregon Film initiative</p>	<ul style="list-style-type: none"> The Legislature should adopt the Oregon Growth Board's forthcoming proposal. The proposal should create and fund the Oregon Growth Fund (name TBD). The Fund should adopt a portfolio approach to investment that captures early stage, venture stage and later stage investments. The Fund should include new tools to leverage private investment and grow Oregon's private investment infrastructure 	<p>Implement the Regulatory Streamlining Roadmap. In particular:</p> <ul style="list-style-type: none"> Adopt consistent management systems within and across state agencies Create permitting ombudsman function inside Regional Solutions. Advance pilot projects identified in the Roadmap Launch awards program to recognize efficient and effective cities and counties Improvements to land use appeals process Eliminate overlapping regulations across levels of government 	<ul style="list-style-type: none"> Secure state funding for inventories and due diligence Partially forgivable state loan program for preparation of traded sector industrial sites Streamline UGB expansion process based on stakeholder group recommendations 	<ul style="list-style-type: none"> Accelerate forest restoration activities on east side federal forests Agree on and implement an O&C solution Increase wildfire initial attack capacity Promote the innovative use of wood products Implement new state biomass strategy Promote sustainable harvests on state forests 	<ul style="list-style-type: none"> Further streamline energy facility and transmission siting to get projects off the ground while capital costs are low. Focus on energy efficiency and vehicle fleet conversion as the most effective ways to reduce emissions Continue to protect Oregon's competitive advantage in energy costs 	<ul style="list-style-type: none"> Achieve 100K NCRCs and >24 counties certified as career ready by 2016 Create STEM investment council and identify funding to double STEM graduates by 2025 Continue recent investments in high school career and technical education Double the number of people served by Back-to-Work Oregon on-the-job training program for 2013-15 Further align Oregon's federal workforce investments to meet industry needs 	<ul style="list-style-type: none"> Develop both in the short and long term additional capacity for storing Columbia River water during winter months for later use during irrigation and fish migration seasons Using water more efficiently and more productively Develop a stronger interstate approach to Columbia River water

To see any of these initiatives in greater detail, visit www.oregonbusinessplan.org

CONNECTING JOBS, PUBLIC SERVICES, AND PROSPERITY

This snapshot shows the widget on our website that illustrates how growing high-wage jobs improves our communities. Please visit www.oregonbusinessplan.org to slide the levers at the left of the image. See how growth in jobs and incomes affects public services that are vital to prosperous communities across Oregon.



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