

**74<sup>th</sup> OREGON LEGISLATIVE ASSEMBLY – 2007 Regular Session  
BUDGET REPORT AND MEASURE SUMMARY**

**MEASURE: SB 5508-A**

**JOINT COMMITTEE ON WAYS AND MEANS**

**Carrier – House: Rep. D. Edwards  
Carrier – Senate: Sen. Johnson**

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**Action:** Do Pass as Amended and Be Printed A-Engrossed

**Vote:** 20 – 0 – 2

House – Yeas: D. Edwards, Galizio, Garrard, Hanna, Jenson, Morgan, Nathanson, Nolan, Shields

– Nays:

– Exc:

Senate – Yeas: Bates, Brown, Courtney, Devlin, Johnson, Morse, Nelson, Schrader, Verger, Westlund, Whitsett

– Nays:

– Exc: Gordly, Winters

**Prepared By:** Kay Erickson, Department of Administrative Services

**Reviewed By:** Robin LaMonte, Legislative Fiscal Office

**Meeting Date:** 6/22/07

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**Agency**

Department of Economic and Community Development

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**Biennium**

2007-09

**Senators:** Bates, Carter, Devlin, Gordly, Johnson, Morse, Nelson,  
Schrader, Verger, Westlund, Whitsett, Winters

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Senator Kurt Schrader, Co-Chair

**Representatives:** D. Edwards, Galizio, Garrard, Hanna, Jenson,  
Morgan, Nathanson, Nolan, Shields

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Representative Mary Nolan, Co-Chair

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Senator Betsy Johnson, Transportation and Economic Development  
Subcommittee Chair

## **Budget Summary\***

	2005-07		2007-09		Percentage Committee
	Legislatively Approved Budget (1)	Governor's Budget	Committee Recommendation	Difference from Governor's Budget	Change from Governor's Budget
General Fund	\$ 1,797,951	\$ 4,220,781	\$ 3,229,105	\$ -991,676	-23.5%
Lottery Funds	55,063,080	111,200,059	68,547,562	-42,652,497	-38.4%
Lottery Funds Debt Service	49,390,212	57,998,536	57,998,536	0	0.0%
Other Funds	38,506,442	41,017,546	40,817,546	-200,000	-0.5%
Other Funds Debt Service	1,956,772	0	0	0	0.0%
Other Funds Nonlimited	244,440,781	233,077,163	131,047,084	-102,030,079	-43.8%
Other Funds Debt Service Nonlimited	46,365,785	67,735,549	67,735,549	0	0.0%
Federal Funds	36,067,401	36,340,253	36,340,253	0	0.0%
Total	\$ 473,588,424	\$ 551,589,887	\$ 405,715,635	\$ -145,874,252	-26.4%

## **Position Summary**

Authorized Positions	121	128	126	-2
Full-time Equivalent (FTE) Positions	118.58	127.92	125.92	-2.00

(1) Includes adjustments through the December 2006 meeting of the Emergency Board

\* Excludes Capital Construction expenditures

## **Summary of Revenue Changes**

The Oregon Economic and Community Development Department (OECDD) is funded through a variety of revenue streams, with direct Lottery Funds and Lottery bond funds (Other Funds Nonlimited) becoming increasingly important in recent biennia. The Department receives Other Funds (Limited and Nonlimited) revenue from loan repayments and interest earnings, investment income, bond proceeds, application fees, service fees, grants and donations, publication sales, and from reimbursement for partnerships and agreements with other state and private entities. Other Funds are expended using both Limited and Nonlimited expenditure authority. Typically, Nonlimited expenditure authority is used for bond-related and revolving loan fund expenditures.

The Community Development Block Grant is the largest source of Federal Funds. Other federal grant revenues are received from other specific grant sources, including the US Forest Service, Federal Emergency Management Administration, and Environmental Protection Agency. The Department typically receives other small grants throughout the biennium. Federal Safe Drinking Water Act funds come to the Department through an interagency agreement with the Department of Human Services, and are expended as Other Funds.

Excluding Nonlimited Other Funds, Lottery Funds provide the major revenue source for the Department's programs. Lottery Funds provide the bulk of funding for the Operations program unit and Special Payments to the semi-independent Film and Video Office. It is also an important component of the Community Development Fund, and funds Debt Service payments on Lottery revenue bonds, which are a substantial source of Other Funds Nonlimited revenues.

The Arts Commission receives General Fund monies in addition to Other Funds (largely from private grants) and Federal Funds from the National Endowment for the Arts. Funding for the Cultural Trust comes largely from private contributions received with respect to a related personal income tax credit. Additional funding is also available from the sale of the Cultural Trust license plates to Oregon vehicle owners.

The budget approved by the Subcommittee will also include updated revenues in the Oregon Budget Information Tracking System (ORBITS) to reflect changes in estimates that have occurred between initial budget development and passage of the agency's budget. This will consist of a number of revenue and beginning balance changes.

### **Summary of Subcommittee Action**

The mission of the Oregon Economic and Community Development Department (OECDD) is to: Advance Oregon's economy. The agency accomplishes this mission through three primary goals. The goals are: promote a strong investment climate that retains existing businesses, create new jobs, and increase average wages; support innovation and research to improve national and global competitiveness of Oregon companies; and assist communities to build capacity to attract, retain and expand businesses. These goals were identified as the result of a statewide economic development strategic plan required by House Bill 2011 (2003). The agency continues to define its efforts in light of Senate Bill 838 (2005) and the promotion of the "innovation economy." The Commission was directed by the 2005 Legislative Assembly to review the laws related to state economic development and suggest amendments to improve these laws. The recommendations are contained within Senate Bill 350 (2007).

The Department shifted its focus in the 2005-07 biennium to helping Oregon businesses and industries in their efforts to remain competitive and successful. However, it also continues to provide assistance to rural and distressed communities and small and emerging business, including those owned by women and minorities. In its efforts, the Department encourages sustainable practices and creates flexible partnerships to solve problems. A five-member Commission, appointed by the Governor, provides policy oversight to the Department.

The Joint Committee on Ways and Means Transportation and Economic Development Subcommittee reviewed the Department's budget and each of the proposed policy packages. It identified a series of reductions and new policy packages which are outlined below. The Subcommittee approved a budget of \$405,715,635 total funds and 126 positions (125.92 full-time equivalent) for OECDD. This is a decrease of \$145,874,252 total funds, or 26.45 percent, from the Governor's Recommended Budget.

The Subcommittee identified a number of issues related to the management of the Economic and Community Development Department (Department) and its accountability for funding and outcomes from its various grant and loan programs. In order to assure legislative oversight of the agency, and to monitor the results of the legislative changes approved in Senate Bill 350, the Subcommittee approved the following budget note:

## **Budget Note**

For the period of July 1, 2007 to February, 2008, the Subcommittee expects the Economic and Community Development Commission to:

- Review and document the performance goals for each grant and loan program administered by the Department.
- Develop the criteria that the Department will use to prioritize grant and loan approval, based on the direction established in Senate Bill 350.
- Develop the criteria to ensure that the Commission reviews and approves major grants and loans.
- Develop a statistically valid and auditable methodology for prioritizing, funding, tracking and reporting grant and loan activities to the legislature. This should include reporting on the sustainability of economic development outcomes, including, when applicable, job retention for five or more years.
- The Commission should develop an economic and community development incentive report that includes all economic and community development incentive programs and funds. The Commission should provide the incentive report to the Governor and the Legislative Assembly by December 1, 2008. The report should itemize the success of economic development efforts for each program receiving support through OECDD funds, including performance data for each program or fund administered by OECDD, or for which participation in the program or support through the fund is subject to the approval, certification or recommendation of the Commission or OECDD.
- Report to the legislature on any recommendations made with respect to further organizational changes.

The Commission is directed to report to the February 2008 meeting of the legislature on the outcome from these activities, including but not limited to: the methodology that the Department will use to approve grants and loans; the methodology for tracking and reporting the outcome from grant and loan activities; and any recommended organizational changes, including the costs, positions and FTE in each unit within the Operations program.

### **Operations – 100**

The Operations program unit includes the budget for all staff, excluding the Arts Commission. It includes costs related to all technical, administrative, and program support for Department activities. It also includes the Director's Office, which provides policy oversight under the direction of the Economic and Community Development Commission.

The Subcommittee took the following actions related to the Operations program budget:

Package 102: Innovation and Economic Strategies Public Affairs – Not approved.

Package 103: Telecommunications Specialist Fund Shift – Approved a fund shift of \$179,071 from Other Funds to Lottery Funds to maintain support for a position created as a result of Senate Bill 622 (1999). This position was originally funded with Other Funds from revenues generated from that law. This funding has expired, but there remains an ongoing need for a telecommunications specialist within the Department.

Package 104: Workforce Investment – Not approved.

Package 107: Technology Investment – Approved \$396,000 Lottery Funds and \$264,000 Other Funds expenditure limitation to develop a replacement for the agency’s current project tracking system. The enhanced system will allow the agency to improve the capacity to track and report information about projects, including data needed for performance measurement.

Package 108: Community Development Block Grant (CDBG) Fiscal Analyst – Approved \$80,000 Other Funds matched with \$80,000 Federal Funds expenditure limitation to establish a 1.00 full-time equivalent position to assume fiscal tasks associated with administering the federal CDBG program.

Package 117: Business Finance Officer – Approved \$150,000 Other Funds expenditure limitation to establish a 1.00 full-time equivalent position to manage the business finance portfolio, track loan progress, and develop performance reports in the increasingly complex revolving loan programs.

Package 118: Contracts Specialist – Approved \$31,231 Lottery Funds and \$124,925 Other Funds expenditure limitation to establish one position (1.00 full-time equivalent) to increase current contract processing capacity.

Package 119: Transportation Liaison – Not approved.

The Subcommittee added the following policy package to the OECD Operations program area budget:

Package 808: Oregon Main Street Program – This package establishes \$135,431 Lottery Funds for a full-time limited-duration Program Analyst 3 position and position-related Services and Supplies to support the Oregon Main Street Program. The program invests in local efforts to preserve and restore Oregon’s historic downtowns by giving individuals and local governments access to federal match dollars and services to leverage private investment. A grant fund component of this package is included in the Community Development Fund program area of the agency’s budget.

#### Community Development Fund – 200

The Community Development Fund program unit includes the funding sources used by the Department to assist businesses and communities in order to achieve economic and community development goals statewide, including job retention and creation, infrastructure development, and overall economic development capacity building. This program unit does not include position authority; rather it is composed of a variety of programs and funding sources including grants, loans, and bonding programs. Generally, the services delivered through this unit are financing

for projects and technical assistance. The Economic Development Commission allocates resources to each program fund based on legislative direction and Commission priorities.

The Subcommittee took the following actions related to the Community Development Fund program area:

Package 101: Oregon Innovation Council (InC) Innovation Plan – Approved \$22,904,000 Lottery Funds, to implement the Innovation Plan of Oregon InC. These funds will be expended as Special Payments to support the following initiatives:

- Oregon Nanoscience and Microtechnologies Institute (ONAMI) to support development of licensable technologies, patents, spin-off companies, and job creation - \$9,000,000
- BioEconomy and Sustainable Technologies Institute (BEST), a signature research center that will support research seed funding for biofuels/bioproducts research, to leverage external funding and supplemental research support - \$2,500,000
- Manufacturing Competitiveness Initiative for collaborative public-private research projects for value-added manufacturing processes to increase competitiveness, including three faculty members - \$2,872,000
- Ocean Wave Energy for production incentives, development of a commercial scale wave energy park, and research and development, including staff, consulting and equipment - \$4,200,000
- Food Processing Innovation and Productivity Center, for research, development and training, including staff, consulting and equipment - \$3,432,000
- Community Seafood Initiative, for market development, staff and consulting - \$900,000

Package 104: Workforce Development – Not approved. The Subcommittee approved Package 806: Strategic Reserve, as described later in this document, for workforce and other investments.

Package 106: Small Business Services – The Subcommittee approved \$2,300,000 Lottery Funds to support the Small Business Development Centers (SBDC). The Subcommittee transferred funding for Targeted Service Providers to a one-time grant in Package 807: Targeted Service Providers later in this document. The Subcommittee provided direction to the SBDCs in the following budget note:

### **Budget Note**

The Economic Development Commission is directed to establish a performance contract with the Small Business Development Center Network (SBDC) that defines the job creation and retention outcomes that will be achieved based on the funding level provided. OECDD will report to the Joint Legislative Audit Committee (JLAC) or other appropriate interim committee on these outcomes. The SBDC will report to the Commission quarterly on its success in achieving these job creation and retention outcomes. The Commission will require independent validation of the data contained in the report. OECDD will report to JLAC or other appropriate committee at the meeting closest to September 2008 on the results of the independent validation of outcome data. If the Commission determines that SBDC is not meeting the performance outcomes identified in the contract, the Department shall report this to the Emergency Board, and may recommend appropriate remedial action, including suspension of Lottery Funds payments.

Package 109: Infrastructure Capitalization – Not approved.

Package 110: Marketing/Branding Investment – Not approved.

Package 114: Business Retention Services – Not approved.

Package 115: Lean and High Performance Manufacturing – Not approved.

Package 120: Regional/Rural Restoration – The Subcommittee approved a modified package that provides \$2,000,000 Lottery Funds to maintain the 13 regional economic development boards, with revised instructions as outlined in the budget notes below.

### **Budget Note**

Economic and Community Development Commission: For the period of July 1, 2007 to February, 2008, the Subcommittee expects the Commission to:

- Develop minimum standards for the administration of Regional Economic Development Boards (Boards) and establish a plan for allocating funding to the Boards.
- Determine the capability of each Board to carry out the requirements listed below. Notify the appointing authorities, including cities and counties, for each Board of the findings. Should the Commission determine that a Board is not able to meet the requirements, the Commission will work with the appointing authorities to designate an alternate organization. The Commission may redirect allocated funds to the organization identified by the appointing authorities.
- Develop the criteria for prioritizing regional Needs and Issues and infrastructure projects, and communicate the criteria to the Boards. The Commission should consider the need for infrastructure investment in areas of recent urban growth boundary expansion where population and development growth are targeted to occur when developing its criteria.
- Receive the Needs and Issues and infrastructure lists from the Boards, and prepare a consolidated statewide infrastructure priority list. Develop an infrastructure funding request based on the statewide priorities.
- Approve a statistically valid and auditable methodology for prioritizing, funding, tracking and reporting for Board grant and loan activities.

The Commission should identify the role of the Boards in furthering the statewide economic development goals established in SB 350, and as appropriate, develop a plan for the future role of these Boards. The Commission should report to the legislature in February 2008 on this plan, including potential funding.

Regional Economic Development Boards: For the period of July 1, 2007 to February, 2008, the Subcommittee expects the Regional Economic Development Boards to focus on three key issues:

- Manage the existing grant and loan portfolios, but cease approving further grants and loans out of the funds appropriated for the 2007-09 biennium.
- Develop two prioritized lists for each region:
  - A Needs and Issues list; and
  - A list of all infrastructure development needs, prioritized as directed by the Economic and Community Development Commission.
- Assist the Commission in developing a statistically valid and auditable methodology for prioritizing, funding, tracking and reporting on the effect of Board grant and loan activities on the state economic development priorities, as set by the Commission.

The Subcommittee added the following policy packages to the OECDD Community Development Fund program area budget:

Package 806: Strategic Reserve – This package establishes one-time expenditure authority of \$1,500,000 Lottery Funds to the Strategic Reserve Fund in Special Payments for workforce and other investments. This is a partial restoration of Package 104: Workforce Investment.

Package 807: Targeted Service Providers – This package authorizes one-time funding of \$1,350,000 Lottery Funds for Special Payments to Targeted Service Providers, to support the under-served populations of minority- and women-owned businesses and small businesses in rural or distressed communities. The following budget note was approved by the Subcommittee:

### **Budget Note**

The Economic Development Commission is directed to establish performance contracts with entities receiving services as a result of this line item allocation. The contracts will define the job creation and retention outcomes that will be achieved based on the funding level provided under the contract. OECDD will report to the Joint Legislative Audit Committee (JLAC) or other interim committee on these outcomes. The recipients of these services will report to the Commission quarterly on success in achieving these job creation and retention outcomes. The Commission will require independent validation of the data contained in the reports. OECDD will report to JLAC or other interim committee at the meeting closest to September 2008 on the results of the independent validation of outcome data. If the Commission determines that contractors are not meeting the performance outcomes identified in the contract, the Department shall report this to the Emergency Board, and may recommend appropriate remedial action, including suspension of Lottery Funds payments.

Package 808: Oregon Main Street Program – This package establishes \$500,000 Lottery Funds to provide one-time resources for a grant fund to support the Oregon Main Street Program. The program invests in local efforts to preserve and restore Oregon’s historic downtowns by giving individuals and local governments access to federal match dollars and services to leverage private investment. A support position for the program is included in the Operations program area of the agency’s budget.



Package 809: Targeted Workforce Training – This package authorizes a one-time grant allocation of \$250,000 Lottery Funds in Special Payments for two workforce development programs. One program will provide \$200,000 to Clackamas Community College, subject to a grant agreement that the College will commit to producing 50 truck drivers within the funding allocated. The second grant will provide \$50,000 to Tillamook Bay Community College for the Industrial Maintenance Technician Program.

Package 810: Olympic Trials – This package establishes one-time funding of \$500,000 Lottery Funds in Special Payments for a grant to the City of Eugene for facilities and other costs related to the 2008 Olympic Trials.

Package 811: Base Budget Adjustment (eliminates Regional/Rural Program essential budget) – This package deletes the Essential Budget Level funding of \$7,314,401 Lottery Funds in Special Payments from the Regional/Rural Investment program. See Package 120: Regional/Rural Restoration, described earlier in this document, for 2007-09 funding approved by the Subcommittee.

#### Film and Video – 500

The Film and Video Office focuses on promoting the development of the film, video, and multimedia industry in Oregon. The Office also acts to enhance the industry's revenue, profile, and reputation within Oregon and internationally. It recruits the industry to film features, movies, and television series in Oregon, and actively recruits related businesses to relocate to Oregon permanently. The 1995 Legislature made the Film and Video Office a semi-independent state agency. As such, the Office has no state employee positions. Staff operates under the direction of a five-member Board appointed by the Governor. The Film and Video Office receives Lottery Funds via a Special Payment from OECD.

The Subcommittee approved the following Film and Video Office requests:

Package 111: Film and Video Marketing – \$330,000 Lottery Funds to increase the marketing efforts by the Office.

Package 113: Film and Video Office Operations – \$84,000 Lottery Funds for staff support, rent, and an increase in the database server fee.

#### Arts – 600

The mission of the Arts Commission is to foster the development of arts across Oregon and assure their excellence in order to enrich the lives of Oregonians. The Commission provides leadership, funding, and services to Oregon artists, arts organizations, students and communities. Nine citizen commissioners, appointed by the Governor, are responsible for Commission governance including policy and grant-making decisions. The Commission administers a number of programs, including evaluating the impact of arts on Oregon's economy and providing National Endowment for the Arts funding for programs in Oregon. It also assesses and maintains Oregon's existing public art and supports Oregon's efforts towards arts education.

Following passage of 2003 Senate Bill 931, this program unit also assumed responsibility for management of the Oregon Cultural Trust. The Cultural Trust is a statewide program designed to raise significant new funds to invest in Oregon's arts, humanities and heritage.

The Subcommittee took the following actions on the Commission’s budget:

Package 105: Cultural Trust Public Affairs – Approved \$192,000 Other Funds expenditure limitation to make permanent a position established as limited duration in 2005-07 to provide communication and outreach activities for the Cultural Trust. The position is funded from a combination of money from private foundations and interest earnings on the Trust.

Package 112: Creative Oregon Initiative – Approved \$1,900,000 General Fund, \$8,324 Other Funds and a .92 full-time equivalent position to increase support for, and the capacity of, Oregon’s arts, cultural and creative sector. \$500,000 of this funding is restricted to marketing, fundraising and other activities related to the Cultural Trust.

#### Lottery Bond Debt Service – 900

The Lottery Bond Debt Service program unit is used to track the payment of Lottery Bond Debt Service, including both principal and interest. The revenue in this program unit is largely from transfers from the DAS Economic Development Fund.

### **Summary of Performance Measure Action**

The Subcommittee directed the agency to consider modifying the language in Key Performance Measure 3 (KPM) from “amount of estimated” to something like “Personal income tax dollars generated...” and approved the KPM.