

Good morning,

I am Paul Phillips, President of Pac/West Communications, submitting testimony on behalf of the Smart Growth Coalition in support of HB 3174, extending the sunset date for the Oregon Qualified Research Tax Credit.

The Smart Growth Coalition is comprised of a group of corporations who are dedicated to fiscally responsible policies for Oregon's business environment. Since 1999, companies like Nike Inc., Intel Corp, Columbia Sportswear, Genentech, Greenbrier Companies, Schnitzer Steel, and Tektronix have been advocating for a business environment in Oregon conducive to attracting and growing companies through sound tax policies. An emphasis of this work is validating relevant provisions allowed under Oregon's system of tax credits.

Research and development are critical components to any successful business plan in today's global economy. Businesses whose innovation becomes stagnant cannot survive over the long-term, as competitors are always looking for the next new thing that will give them the edge. It is for this reason that R&D is so important to the economic future of Oregon, our region, and the Nation. I believe this is reflected in the Federal emphasis and support of R&D tax credits as well as the 38 states in the U.S. that have R&D provisions.

Oregon is home to a vast array of innovative entities: academic institutions, private and public firms and organizations with considerable expertise in bioscience, software, computer and electronics manufacturing, materials science, consumer goods and clean technology. It is important to note that the R&D tax credit is not limited to high-tech alone, and can be used by a wide range of business sectors.

Additionally, R&D investments foster a business climate that contributes to the vibrant livability of our communities. A comprehensive look at R&D in Oregon shows, from the monetary standpoint, that these types of investments contribute approximately \$4 billion into Oregon's economy. These high paying jobs on average are double the average private sector wages. For a state is so highly dependent on the personal income tax, these wages help generate revenue to fund important public services and programs.

The following statistics demonstrate the many qualified research activities currently occurring in Oregon's varying industries.

- According to Tech-America's most recent study of employment and wages, Oregon High-Tech employs 86,000 people at an average annual wage of \$80,000 – that's more than twice the average private sector wage in Oregon.
- It is estimated that there are more than 63,000 science and engineering professionals currently employed in just the Portland region.
- High-tech generates a total payroll of approximately \$6.9 billion in Oregon.
- **Oregon ranks 3rd in the Nation for patents awarded per 1,000 individuals in science and engineering occupations.**
- Patents issued to greater Portland applicants increased 7.1% between 2002 and 2008, more than Austin Texas' 5.6%, and twice San Jose's 3.5%.

- **Clean technology generated** \$70,001,922 of venture capital inside of a 10 year period between 1999 and 2008. Also inside of this time frame 163 recognized clean technology patents were approved.
- **Clean Tech innovation has led to:**
  - 19,000 clean-tech jobs in 2007, up 50% from 1998
  - Over \$3.1 billion in new capital investment
  - Roughly \$250 million collected for local property tax and community services over the life of projects
- According to the Athletic and Outdoor Industry Cluster, Portland is one of a handful of leading global centers for this industry. Oregon has a “high location quotient” for athletic and outdoor business: 1.67, meaning that the industry’s employment is about a 67% larger share of the local economy than in the typical State.
  - Statewide, the athletic and outdoor industry directly employs more than 14,000 workers
  - More than 700 firms, such as Nike, Danner, Adidas and others generated a statewide payroll of nearly \$1.2 billion in 2008.
  - Average wages in this industry are more than \$80,000 annually, about 70 percent higher than the statewide average for all workers.
- Although much of the innovation in the athletic and outdoor industry involves design and branding that are not covered by patents, a small but significant number of innovations are patented. Five Oregon based companies rank among the most active patenters in Oregon in the five year period between 2004 and 2008.
  - **Nike, Inc.-** total of 167 patents, ranked 6
  - **Leatherman Tool-** total of 29 patents, ranked 29
  - **Wilson Sporting Goods Co.-** total of 7 patents, ranked 79
  - **Fiskars Brands Inc.-** total of 6 patents, ranked 82
  - **Addidas International Marketing B.V.-** total of 88 patents, ranked 88
- According to the Portland Development Commission, today the software cluster in the Portland metropolitan region consists of more than 1,400 companies.
  - The average annual wages is \$83,388.
  - Large industry players such as Intel, IBM and Hewlett Packard have a significant regional presence.
  - Last year seven Portland area software firms raised more than \$50 million in new venture capital.
  - All seven companies are retaining employees from the Portland area, which acknowledges the area’s supply of talent and ideas.

As evident in the above statistics, research and innovation are paramount in sustaining a variety of sectors of Oregon's Economy. Provisions like the R&D Tax Credit are tools that Oregon needs to maintain in its arsenal to sustain this level of competitiveness. Any erosion of these tools will simply force businesses to look at our regional neighbors and around the world for their research activity.

Oregon's vision is to be a leader in research and innovation to enhance economic prosperity. The Oregon Qualified Research Credit anchors companies performing R&D now and provides incentives to drive other companies performing R&D to Oregon. Without this important credit, some of our premiere companies could certainly be woo'ed to greener pastures.

In reality, companies would be able to survive in Oregon without this credit; however, since the initial passage of the R&D Tax Credit in 1989, Oregon has made monumental strides in becoming a research and innovation leader and this sector is an important contributor to Oregon's economy. Renewing this legislation will secure Oregon's position as a leader now and into the future.

I urge you to support HB 3174, which would retain the Oregon Qualified Research Credit, and not let the provision sunset at the end of this year.

Sincerely,  
Paul Phillips