April 3, 2017

Chair Lininger and members of the committee:

For the record, I am Ramona Rodamaker, Assistant Director for Operations and Finance for Business Oregon.

To begin, I want to highlight four of the overarching findings taken directly from the Secretary of State's audit report:

1. Business Oregon programs helped add new jobs and workers filling those jobs generated positive returns to the state through income tax payments.
2. Oregon has recently made a number of improvements in reporting awards to individual businesses putting it near the top in state rankings and improving public accountability.
3. Business Oregon has developed new, more thorough processes for making Strategic Reserve Fund awards.
4. Business Oregon is in compliance with all current laws and regulations.

While we appreciate the report's recognition of the work we have done thus far, we remain committed to continuous improvement and will work to continue to refine our processes and build on these successes in the future.

To summarize our management response, I want to note three areas in which we have already taken significant steps to address the SOS recommendations, and I also need to note a few areas where we do not believe the Secretary of State auditors' recommendations are actionable because they conflict with a number of state and federal disclosure laws or they necessitate significant changes in agency reporting structures and responsibilities, which are also defined in law.

As for what we've done so far:

Even though the audit was just released in December, we have already taken a number of steps in addition to the strategic planning activities that Director Harder referenced to make additional improvements to our processes. They include:

1. As part of Business Oregon's efforts to use thorough underwriting processes to ensure that we make good, defensible loan and incentive awards, we already made a number of improvements to our Strategic Reserve Fund work flow processes. These changes incorporate feedback from both the internal audit that we requested in 2015 to improve our internal control processes, as well as the more recent Secretary of State's audit.

   To date, we have strengthened the SRF decision making, contracting, and monitoring processes that include:

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a. Conducting a thorough review of each company's financial records to assess pros and cons;
b. Holding monthly meetings in which a multi-disciplinary team reviews the application and financials, discusses and addresses any concerns by modifying loan terms and conditions; and,
c. Sharing these deliberations with the Governor and her staff before requesting signature.

These improvements were completed one month after the SOS audit was issued and were implemented in January, 2017, as stated in our management response letter. I have flow charts describing our processes in detail that I would be happy to share if you are interested.

2. While to our knowledge we have always been in compliance with all statutory reporting and transparency statutes and guidelines, In October, 2016, we took the initiative to work with the DAS Office of Transparency to create a web link on their page to our agency–specific outcome measures. We also placed a reciprocal link on our web site directing customers to the information on their page. We see this as a first step in managing our own data sets, uploading real-time data, and ultimately providing the kind of program-specific outcome information that will most benefit our customers.

   Unfortunately, we must take issue with their recommendation that we establish job creation targets and outcomes for the 15 separate programs they listed in their report. As their own chart notes, only nine of the programs are our programs and only four of these have a purpose or goal that is tied to job creation. Forty percent of the programs mentioned are located in other departments and the rest are traditional loan programs that are used for working capital, equipment purchases, bridge loans, and other business investments.

3. Both our internal audit and the SOS audit reports recommended that we formalize our policies and procedures for changing loan terms. We have begun to examine these processes as we upgraded our contracting and project monitoring work flows. It is our plan to further define the conditions under which we offer contract amendments and outline a menu of contracting options and terms and to use the newly formed SRF multi-disciplinary team to review these decisions before they are implemented. We have also already begun tracking these modifications in our Customer Relations Management data base for our Business Finance programs.

Areas that are not currently actionable without law changes:

1. The audit recommends that Business Oregon require a sunset review of all tax expenditures and ensure enterprise zone reports are complete and accurate, including gathering job and wage data for long-term rural enterprise zones.

While we have a long history of voluntarily contributing to these efforts and are happy to participate in any future evaluation of the various tax abatement efforts they list, other agencies possess the statutory authority to direct and compel these activities. We do not.

Local Boards of County Commissioners propose and approve the zones. We make an administrative determination about whether the legal requirements to be an enterprise zone have been met. Tax assessors manage and report on the various enterprise zones. And, the department of Revenue collects and evaluates the tax data. In short, our role is limited to a brief administrative function and other agencies have greater access to data and are better staffed to assess and report on these programs, which make up $535 million or 79% of the $680 million in programs they mention.

2. The audit further recommends that we work with other agencies and the Legislature to address current disclosure limitations due to confidentiality rules and laws.

This would require several state and at least one federal law change. Plus, it would require us as a state agency to advocate for policy changes, which is not our understanding of Business Oregon's role.

Our job creation numbers, unlike the metrics many other states use, use actual employment and department of revenue department data to determine whether businesses have created the number of full time jobs they have promised and the amount of tax revenue these jobs generate. Section 303 of the Social Security Act, as well as ORS 657.665 and ORS 118.525 specifically protects this information from disclosure.

In addition, ORS 192.502 exempts applicants' financial statements, tax information, production, sales, and cost data, and other information that could reveal a company's financial status or competitive strategies.

In short, the current law prohibits us from disclosing recipient-level financial information and tax records. And, the interagency agreement we enter into with the Oregon Employment Department limits our ability to disclose job and wage data for specific companies. If we violate the terms of this agreement, we will lose access to verifiable job and income data that we use to track our key performance measure and evaluate our programs.

That concludes the main points of our management response to the Secretary of State's economic development audit. If you have any questions, we would be happy to answer them.