

Oregon Business Development Department

	2015-17 Actual	2017-19 Legislatively Adopted	2017-19 Legislatively Approved *	2019-21 Current Service Level	2019-21 Governor's Budget
General Fund	14,811,095	55,096,211	55,013,540	61,822,937	70,567,441
Lottery Funds	100,496,117	115,975,469	117,789,412	119,156,968	129,457,797
Other Funds	62,403,430	378,417,137	383,574,013	407,723,679	519,166,639
Other Funds (NL)	125,309,446	237,886,281	237,886,281	245,544,035	342,480,274
Federal Funds	25,924,065	40,717,603	41,457,527	43,049,222	43,131,975
Total Funds	328,944,153	828,092,701	835,720,773	877,296,841	1,104,804,126
Positions	139	136	136	136	146
FTE	135.34	134.50	134.50	134.50	141.25

* Includes Emergency Board and administrative actions through December 2018.

Program Description

The mission of the Oregon Business Development Department (OBDD) is to invest in Oregon businesses, communities, and people to promote a globally competitive, diverse, and inclusive economy. OBDD is responsible for the state's economic development strategy and provides economic and community development and cultural enhancement throughout the state, administers programs that aid businesses and communities, including the Seismic Rehabilitation Grant Program. The Department is overseen by a nine-member Commission, with seven members appointed by the Governor and confirmed by the Senate and two nonvoting Legislative appointees.

The Department has six budgeted program areas:

- The **Operations** program area includes central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure) programs. Operations is financed primarily with Lottery Funds, but Other Funds revenues generated from infrastructure and business finance programs and federal grant administration funds also support a portion of the budget.
- The **Business, Innovation, Trade** program area includes the staff and the funding sources used by the Department to support economic strategies and policy development and to provide support services, grants, and loans to assist businesses with job retention and creation, to promote trade and innovation, and incentivize the production of solar power. This program area operates a variety of programs and uses a variety of funding sources. The largest of the Lottery Funded programs are the Oregon Innovation Council (Oregon InC) Innovation Plan and the Strategic Reserve Fund. Other Funds generated through loan principal and interest repayments, investment earnings, and loan and service fees support business finance direct loan and loan guarantee programs. The Certification Office for Business Inclusion and Diversity (COBID) is funded with state agency assessments and revenue from the Oregon Department of Transportation (ODOT).

General Fund supports the Solar Incentivization Program. Federal Funds expenditures are funded from federal grants, including the State Small Business Credit Initiative (SSBCI) grant and the State Trade and Export (STEP) grant.

- The **Infrastructure** program area includes the staff and the funding sources used by the Department to provide grants and loans to assist communities with infrastructure development projects. In the 2013 session, the Seismic Rehabilitation Grant Program was transferred from the Military Department to OBDD. In the 2015 session, the Brownfields, Industrial Lands, and Broadband programs were transferred internally to Infrastructure from BIT. Infrastructure operations and programs are primarily funded with Other Funds revenues generated from revolving loan funds, including loan principal and interest repayments and investment earnings, as well as lottery revenue and general obligation bond proceeds. Federal Funds are received for the Community Development Block Grant and Brownfields programs. Lottery Funds support the administration of the Seismic, Industrial Lands, and Broadband programs. Infrastructure financing programs are overseen by an independent nine-member Infrastructure Finance Authority (IFA) Board.
- The **Oregon Arts Commission** and the **Oregon Cultural Trust** foster the arts and cultural development in Oregon. The Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding to programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art; and approving new public art. The program also operates the Trust for Cultural Development (Oregon Cultural Trust). The Oregon Cultural Trust was established in 1999 to support the arts and culture of the state. The Trust is funded primarily by donations, but also receives funds from the sale of Cultural Trust license plates. The Arts program is overseen by a nine-member Oregon Arts Commission and an eleven-member Trust for Cultural Development Board; all members are appointed by the Governor.
- The **Film and Video Office** is a semi-independent agency that receives pass-through Lottery Funds support in the OBDD budget to promote and support the film, video, and multimedia industries in Oregon. The Office is not part of the Department, and the Office's employees are not included in the agency employment count.
- **Lottery and General Obligation Bond Debt Service** is used exclusively for debt service payments on lottery revenue bonds, Article XI-Q general obligation bonds, and Article XI-M and XI-N general obligation bonds that finance the Seismic Rehabilitation Grant Program. The funding source is almost entirely Lottery Funds and General Fund, although bond interest earnings applied to pay debt service are categorized as Other Funds.

CSL Summary and Issues

The overall 2019-21 current service level (CSL) budget of \$877.3 million is \$41.6 million (or 5%) more than the 2017-19 legislatively approved budget (LAB) of \$835.7 million. In addition to standard inflationary increases for personal services and services and supplies expenditures, a significant portion of General Fund and Lottery Funds CSL growth is attributable to debt service costs. General Fund debt service increased by \$15.1 million (or 38.7%), which reflects the impact of issuing \$121.6 million of Article XI-M and XI-N general obligation bonds in the 2017-19 biennium to finance seismic rehabilitation grants to schools and emergency services facilities. Since the 2015-17 biennium, General Fund debt service has increased over 400% as a result of \$328.9 million in bonds authorized for the seismic program during the last two biennia. Lottery Funds debt service also increased \$2.2 million (or 4.5%), which reflects the net impact of issuing \$67.2 million of lottery revenue

bonds in the 2017-19 biennium to finance OBDD-administered programs and projects and a decrease in debt service on bonds issued in prior biennia. Combined General Fund and Lottery Funds debt service totals \$106.1 million, or 58.6% of total General Fund and Lottery Funds expenditures in the CSL budget.

The CSL budget does not include funding for several major OBDD programs that were approved in the 2017-19 biennium on a one-time basis, either because they were funded with bond proceeds, or because they were specifically approved as one-time funding. These programs include:

- **Regional Solutions** – The Regional Infrastructure Fund received \$4 million of lottery revenue bond proceeds in 2017-19 to fund capital projects identified by local Regional Solutions Advisory Committees. Bonds are scheduled to be sold in April 2019 and debt service is projected to total \$783,500 per biennium, beginning in 2019-21. The CSL budget does not include any authority for new projects in the 2019-21 biennium; however, Other Funds limitation of \$13.6 million is included for projects awarded in the prior two biennia that will not be disbursed by the end of the 2017-19 biennium. OBDD currently estimates that the Regional Infrastructure Fund will have approximately \$11 million in lottery proceeds that will be carried into the 2019-21 biennium, so Other Funds limitation should be reduced accordingly.
- **Seismic Rehabilitation Grants** – The 2017-19 LAB included \$100 million of Article XI-M general obligation bond proceeds to fund seismic rehabilitation grants for schools and \$20 million of Article XI-N general obligation bond proceeds to fund seismic rehabilitation grants for emergency services facilities. The state issued bonds in May 2018 to fund \$35 million of seismic rehabilitation project costs and the remaining bonds are scheduled to be sold in February 2019. However, interest totaling \$7.7 million has been earned on Article XI-M and XI-N bond proceeds previously issued for the Seismic Rehabilitation Grant Program. Interest earnings of \$6.5 million will be used to replace a portion of the \$75 million Article XI-M bonds and \$1.2 million used to replace a portion of the \$10 million Article XI-N bonds. Debt service on the 2017-19 sales is projected to total \$18.2 million in the 2019-21 biennium and will be adjusted to reflect actual debt service on the reduced issuance amount. The CSL budget does not include any authority for new grants in the 2019-21 biennium; however, Other Funds limitation of \$290.9 million is included for grants awarded in prior biennia that will not be disbursed by the end of the 2017-19 biennium. The 2017-19 LAB included \$1.6 million Other Funds for costs to issue bonds that were not phased-out during development of the 2019-21 CSL, so limitation should be reduced accordingly. Other Funds limitation may also need to be adjusted to reflect more current estimates of bond proceeds that will be carried into the 2019-21 biennium.
- **Special Public Works Fund** – The Special Public Works Fund (SPWF) received \$30 million of lottery revenue bond proceeds to fund loans and grants for municipal infrastructure projects, with \$10 million of the \$30 million restricted to levee projects. Bonds are scheduled to be sold in April 2019 and debt service is projected to total \$5.8 million per biennium, beginning in 2019-21. The 2017-19 LAB included \$517,975 Other Funds for costs to issue bonds that were not phased-out during development of the 2019-21 CSL, so limitation should be reduced accordingly.

- **Oregon Growth Fund** – A one-time transfer of \$1.25 million Lottery Funds from the Strategic Reserve Fund (SRF) to the Oregon Growth Fund (OGF) was included in the 2017-19 LAB to increase capital available to the state’s early-stage small businesses. The transfer amount was phased-out during development of the 2019-21 CSL to reflect the one-time permanent use of funds. Lottery Funds expenditure limitation of \$200,000 was included in the 2017-19 LAB for OGF awards not disbursed by the end of the 2015-17 biennium. This limitation was not appropriately phased-out during development of the 2019-21 CSL; however, was removed in the Governor’s Budget.
- **Cultural Resources Economic Fund** – The 2017-19 LAB provided \$4.1 million for cultural organization capital projects. Projects were funded with \$2.45 million of lottery bond proceeds and \$1.65 million General Fund. The legislatively-designated recipients were:
 - Portland Art Museum - Connection Campaign - \$1 million
 - Friends of the Oregon Caves & Chateau - Balcony Restoration Project - \$750,000
 - Eugene Ballet Company - Midtown Arts Center - \$700,000
 - Benton County Historical Society & Museum - Corvallis Museum - \$500,000
 - APANO Cultural Center - \$300,000
 - Oregon Coast Council for the Arts - Newport Performing Arts Center - \$300,000
 - Liberty Theatre Foundation - Theatre Restoration in La Grande - \$200,000
 - Cottage Theatre Expansion - \$125,000
 - High Desert Museum - By Hand Through Memory Exhibit - \$125,000
 - Portland Institute of Contemporary Art - Capital Campaign NE Hancock \$100,000.

The CSL budget does not include any authority for new projects in the 2019-21 biennium; however, Other Funds limitation of \$4.4 million is included for projects awarded in the prior two biennia that will not be disbursed by the end of the 2017-19 biennium. The 2017-19 LAB also included \$121,976 Other Funds for costs to issue bonds that were not phased-out during development of the 2019-21 CSL, so limitation should be reduced accordingly.

- **Coos Bay Channel Fund** - \$15 million of lottery bond proceeds were provided in the 2017-19 LAB for the Port of Coos Bay Channel Deepening Project. HB 2278 (2015) authorized the issuance of up to \$15 million in the 2017-19 biennium and \$40 million in the 2019-21 biennium for the Port of Coos Bay Channel Project to deepen and widen the lower Coos Bay deep draft navigation channel. Distribution of the bond proceeds is contingent upon the Port of Coos Bay meeting certain requirements, including submission of a plan to the U.S. Army Corp of Engineers identifying the preferred alternative for the project, issuance of an environmental impact statement, and submission of a draft combined report to the U.S. Army Corp of Engineers for technical agency review. As the statutory requirements for distribution of the bond proceeds have not been met, the approved lottery bonds will not be included in the April 2019 sale. Other Funds limitation of \$5 million was phased out of the 2019-21 CSL budget for the portion of the \$15 million that was originally anticipated to be spent during the 2017-19 biennium. The remaining \$10 million of project limitation, plus costs of issuance (\$259,002) that were not

phased out of budget, will need to be removed. Additionally, \$40 million Other Funds limitation was added to the 2019-21 CSL for the lottery bonds authorized in HB 2278, but was reduced to \$20 million in the Governors' Budget.

- **Business, Innovation, Trade / Infrastructure Projects** - The 2017-19 LAB included one-time funding for the following projects that was phased-out of the CSL budget:
 - Eastern Oregon Border Economic Development Board Fund - \$5 million General Fund (Other Funds limitation totaling \$4.5 million was phased-in for disbursement of the proceeds in the 2019-21 biennium.)
 - Crescent Sanitary District Sewer System - \$2 million General Fund
 - Oregon Manufacturing Innovation Center (OMIC) - Operating and Research - \$3 million Other Funds (Connect Oregon Fund)
 - Regional Accelerator and Innovation Network (RAIN) - \$500,000 Lottery Funds. (After removal of one-time funding, the 2019-21 CSL includes \$519,000 Lottery Funds for RAIN.)
 - Rural Opportunity Initiative - \$750,000 Lottery Funds
 - Local Economic Opportunity Fund - Community Economic Resilience Planning - \$500,000 Lottery Funds
 - City of Warrenton - Dock Rebuild - \$500,000 Lottery Funds
 - Port of Cascade Locks - Infrastructure and Business Recruitment - \$500,000 Lottery Funds

Lottery bonds approved for the following projects was not phased-out during development of the 2019-21 CSL, in anticipation of the funds being carried into and disbursed in the 2019-21 biennium:

- OMIC Research & Development and Training Center Access Roads - \$3.39 million
- Crescent Sanitary District Sewer System - \$3 million Other Funds
- Sweet Home Wastewater Treatment Plant Upgrade - \$2 million Other Funds
- Port of Brookings Harbor - Dock Repair - \$600,000 Other Funds

The 2017-19 LAB also included \$212,274 Other Funds for costs to issue bonds that were not phased-out during development of the 2019-21 CSL, so limitation should be reduced accordingly.

Policy Issues

The Oregon Cultural Trust's primary revenue source is charitable contributions received through the Cultural Tax Credit. Oregonians who contribute to one of over 1,400 nonprofit organizations may then make a matching contribution to the Oregon Cultural Trust. The matching contribution is allowed as a credit against Oregon income taxes (ORS 315.675), up to \$500 for individuals, \$1,000 for couples who file jointly, and \$2,500 for C corporations. Statute specifies that 40-50% of annual donations are to be deposited in the Trust for Cultural Development Account. The remaining 50-60%, plus interest earnings on the Account, are to be distributed as Cultural Development Grants (50%), Community Cultural Participation Grants (25%), and grants to core partner agencies (25%), with up to \$400,000 (adjusted annually for inflation) being utilized for operations. The tax credit is scheduled to sunset January 1, 2020 and OBDD has submitted a legislative concept to extend the sunset to January 30, 2030. The Trust for Cultural Development Account is invested in the Oregon Intermediate Term Pool (OITP) at the Oregon State Treasury and has a balance of approximately \$27 million, with annual earnings of \$470,000-\$530,000. Absent the tax

credit and ongoing contributions to the Trust of \$4-5 million annually, the level of donations and administration of the Cultural Trust would be significantly reduced.

In addition to contributions and investment earnings, the Oregon Cultural Trust receives revenue from the sale of Oregon Cultural Trust license plates. ODOT transfers the plate surcharge, less their cost of administering the cultural registration plate program, to the Cultural Trust for marketing and promotional costs. Biennially, the Cultural Trust receives approximately \$750,000 in cultural license plate revenue that is used to market the tax credit and increase donations. Section 3, chapter 775, Oregon Laws 2009, specified that the license plate revenues may be used for marketing and promotion and any amounts used for these costs are not considered part of the Trust distribution formula described earlier; however, this law is repealed on June 30, 2019. Inability to use license plate revenue for marketing and outreach expenses reduces the Cultural Trust's administration budget by over \$700,000 and would result in significantly diminished fundraising and the elimination of at least one position (1.00 FTE). A legislative concept was not submitted to extend or remove the repeal.

Other Significant Issues and Background

An independent investigation of OBDD was completed in August 2018 after an anonymous group of employees alleged mismanagement of public funds, the existence of a "bro culture," and discriminatory practices against female and older employees. The four-month investigation by Perkins Coie did not find a widespread hostile work environment or a pattern of discriminatory practices. However, the report did identify that employee morale was extremely low as a result director turnover, agency reorganizations, budget cuts leading to staff reductions, and the management styles of two former senior managers. Several recommendations were suggested to improve the agency culture, including management and communication training for the Director and executive team, allowing staff the opportunity to provide feedback concerning their working environment, evaluating the division of work between Regional Development Officers and Regional Project Managers, completion of annual performance reviews for managers, and providing clear expectations to employees. The report also recommended that the agency give careful consideration to the hiring and selection of the Operations & Finance Assistant Director position, which is currently vacant.

The Governor's Budget provides funding for a number of the agency's requests, including:

- \$138.2 million Lottery Revenue Bonds (45.3% of projected lottery bond capacity) for capitalization of the Special Public Works Fund (\$36 million), Water/Wastewater Loan Program (\$15 million), Brownfields Redevelopment Fund (\$10 million), and Safe Drinking Water Revolving Loan Fund (\$5 million); additional SPWF funding designated for a grant to repair and replace the Wallowa Lake Dam (\$16 million), broadband infrastructure (\$5 million), and FEMA emergency awards (\$2.5 million); the Port of Coos Bay Channel Deepening Project (\$20 million); and Regional Solutions grants (\$15 million). \$8.6 million Lottery Funds debt service is also included to accommodate early bond sales.
- \$121.2 million Article XI-M and XI-N general obligation bond authority to award seismic rehabilitation grants to schools (\$100 million) and emergency services facilities (\$20 million). \$9 million of General Fund debt service is also included to accommodate early bond sales.

- \$2 million Lottery Funds for the Oregon Growth Fund to invest in early-stage businesses.
- \$775,000 Article XI-Q general obligation bond authority to replace the agency's loan and grant management system.

The Governor's Budget also added \$250,000 Lottery Funds for a grant to Levee Ready Columbia and \$1.1 million Lottery Funds and nine positions (4.75 FTE) for the creation of a Broadband Office, consistent with Executive Order 18-31 issued in December 2018 directing the establishment of the Oregon Broadband Office within OBDD. As part of a statewide initiative to strengthen internal audit functions, funding was also provided for an Internal Auditor position.

Several reductions were included in the Governor's Budget to meet General Fund and Lottery Funds constraints. The Solar Incentivization Fund was decreased by \$473,766 General Fund to adjust the program budget to forecasted spending levels, the remaining \$500,000 Lottery Funds RAIN budget was eliminated, and the Oregon Innovation Council (OR InC) budget for High Impact Opportunity projects was reduced by \$1.1 million Lottery Funds. CSL inflation (\$45,887 Lottery Funds) for the Office of Film and Video inflation was eliminated, reducing funding to the 2017-19 level.

OBDD began a strategic review in December 2016, with goals of enhancing service delivery and operational efficiency and flexibility. This review resulted in OBDD revising its organizational structure into four divisions: Economic Development, Operations and Finance, Equity, Strategies and Communications, and Arts and Culture. Two of the principle outcomes of the new structure are to combine the previous Business, Innovation, and Trade Division and the Infrastructure Finance Authority Division, into a single Economic Development Division, combining the operation of business development and infrastructure finance programs into one agency unit; and establishing twelve Regional Development Officer and six Regional Project Manager positions to support program delivery through the state. OBDD presented this plan to the Joint Committee on Ways and Means Subcommittee on Transportation and Economic Development during the 2018 session. To support the reorganization, the Governor's Budget includes a budget alignment package totaling \$495,596 Other Funds and \$84,211 Federal Funds that reclassifies 24 positions, moves four positions between budgeted divisions, and increases two positions from half-time to full-time.