Oregon Business Development Department

	2019-21 Actual	2021-23 Legislatively Adopted	2021-23 Legislatively Approved *	2023-25 Current Service Level	2023-25 Governor's Budget
General Fund	164,411,129	209,279,227	273,338,524	95,074,882	134,960,266
Lottery Funds	105,696,251	150,711,472	148,999,777	131,921,194	351,408,203
Other Funds	348,791,244	1,175,309,563	1,271,428,840	315,631,721	926,041,690
Other Funds (NL)	174,738,706	327,309,699	327,309,699	349,396,861	349,386,176
Federal Funds	39,928,523	85,432,939	122,500,606	51,011,386	138,512,869
Total Funds	**833,565,853**	**1,948,042,900**	**2,143,577,446**	**943,036,044**	**1,900,309,204**
Positions	144	158	183	145	184
FTE	138.69	156.42	167.04	144.50	180.25

* Includes Emergency Board and administrative actions through December 2022.

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, provides economic and community development and cultural enhancement throughout the state, and 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. General Fund, Lottery Funds, Federal Funds, and Other Funds support OBDD's business retention, expansion, and recruitment; export promotion and international trade; innovation and entrepreneurship; community development and infrastructure finance; and arts and cultural programs. Proceeds from the issuance of lottery revenue bonds, general obligation bonds, and Oregon Bond Bank revenue bonds make up a significant portion of Other Funds revenues that are used to finance community infrastructure grants and loans.

The Department has six budgeted program areas:

- Operations – Includes the Director's Office, technology services, policy and communications, internal audit, and central agency administrative services that support the operating programs including the Business, Innovation, Trade and the Infrastructure programs. The Operations Division includes 31.7% of the agency's authorized positions and is financed primarily with Lottery Funds. Other Funds revenues generated from infrastructure and business finance programs and federal grant administration funds also support a portion of the budget.

- Business, Innovation, Trade – Includes the staff and resources used by the Department to support economic strategies and policy development, as well as provide support services, grants, and loans to assist businesses with job retention and creation, and promote

trade and innovation. This program area operates a variety of programs with multiple funding sources. Major lottery funded programs include the Oregon Innovation Council (Oregon InC) Innovation Plan, Strategic Reserve Fund (SRF), and Oregon Manufacturing and Innovation Center (OMIC) research and operations support. The Business, Innovation, and Trade program area is the agency's largest in terms of staffing, with 40% of the agency's employees, and is primarily financed with Lottery Funds. Other Funds generated from 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 Other Funds from state agency assessments and revenue from the Oregon Department of Transportation (ODOT). General Fund supports the Solar Incentivization Program and the newly created Emerging Opportunities Program.

- Infrastructure – Includes the staff and the funding sources used by the Department to provide grants and loans to assist communities with infrastructure development projects, including projects developed within the Regional Solutions Program. Infrastructure also houses the Brownfields, Industrial Lands, Seismic Rehabilitation Grant, and Broadband programs. Special payments (loans and grants) to local governments, the nine federally recognized tribes, and other entities represent over 98% of budgeted expenditures in this program area. Expenditures also include the Department's associated costs to administer the community development programs and debt service on revenue bonds the state has issued to finance community infrastructure loans. 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. The program area includes 24% of the agency's employees.

- Oregon Arts Commission and the Oregon Cultural Trust. The Arts 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 arts programs in Oregon; providing services to arts organizations, individual artists, and communities; and managing Oregon's Percent for Art Program. The program also operates the Trust for Cultural Development (Oregon Cultural Trust), which was established in 2001 to support the arts and culture of the state. This program area houses 6% of the agency's employees and all operating expenses relating to the Arts Commission and Cultural Trust, including personal services expenditures and services and supplies expenditures, as well as funds awarded to arts and cultural nonprofit organizations and individual artists. The Arts Commission is the only part of the agency budget that regularly receives General Fund to support its operations (General Fund is also provided to pay debt service on general obligation bonds). The remaining portions of the program budget are financed by Other Funds (including donations to the Cultural Trust) and Federal Funds from the National Endowment for the Arts.

- Film and Video Office – 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 its employees are not included in the agency employment count.

- Lottery and General Obligation Bond Debt Service – Used exclusively for debt service payments on outstanding lottery revenue bonds, Article XI-Q general obligation bonds, and Article XI-M and XI-N general obligation bonds. Debt service is funded almost entirely with Lottery Funds and General Fund, although Other Funds generated from bond interest earnings and excess proceeds are sometimes applied to pay debt service.

CSL Summary

Beginning with the 2021-23 Legislatively Approved Budget, adjustments are made both in the base budget and through essential budget packages to arrive at the Current Service Level (CSL) budget for the 2023-25 biennium. The Current Service Level contains the cumulative authorized expenditure and staffing levels for ongoing program activities and specific limited-duration activities. There are automated adjustments to the base budget that account for standard inflationary factors, changes to personal services for roll-up costs of permanent positions, elimination of limited-duration positions and associated costs, anticipated debt service, and non-limited expenditure authority. Essential package adjustments include the phase-in of ongoing programs that were not fully budgeted in the prior biennium, phase-out of one time or expiring expenditure authorizations, extraordinary inflation, technical adjustments, and revenue shortfall adjustments.

The Current Service Level for the 2023-25 biennium represents a $1.2 billion, or 56%, reduction in total expenditure authority from the Legislatively Approved Budget for the 2021-23 biennium. This reduction is due almost entirely from the elimination of one-time funded items in the prior biennium from the current biennium.

Debt service increases in the base by $16.7 million GF, $4.5 million LF, and $1.5 million OF to account for current debt repayment schedules. Non-limited expenditure authority increases by $17.2 million to cover anticipated non-limited expenditures, typically revolving loan funds. There are 25 limited duration positions (16.50 FTE) that had been authorized in the prior biennium that are eliminated in the 2023-25 base budget as well. Although the majority of the personal services and associated expenditures for limited duration positions are removed in the base, there are residual non-PICS services and supplies expenditures related to the positions that are not removed in the base, but are included as reductions in the 010 and 022 essential packages.

Roughly $1.46 Billion of authorized expenditures were eliminated from the budget. Of this amount, $268 million was reestablished or "phased-in" to allow for the expenditure of funding that was authorized in the 2021-23 biennium, but not yet expended. The following series of tables detail the individual actions to remove and reestablish authorized expenditures from the prior biennium to arrive at the Current Service Level Budget. Beginning with General Fund investments that were phased-out, the first table presents direct expenditure General Fund investments and the second table presents General Fund investments in fund capitalization where the General Fund was expended in the prior biennium by depositing it in to specific statutory funds that have ongoing other funds expenditure limitation or are in statutory funds that do not limit expenditures. Discussion and tables of actions impacting Lottery Fund, Other Funds, and Federal Funds follow. Each table presents actions by operating program and individual funding program.

	2021-23 Biennium GF Investments Phased-Out in Package 022	
IFA	Crescent Sanitary District	$835,000
	City of St. Helens waterfront redevelopment	$984,000
	Historic Rivoli Theater Performing Arts Center Restoration	$1,500,000
	Warm Springs Water System	$5,737,479
	Coos Bay Channel Modification Project	$15,000,000
	City of Sweethome Wastewater treatment Plant Upgrade	$7,000,000
	Grant to Crawford Electric for Wildfire Costs	$80,000
	Grants to Local Governments for Building and Planning Department Staff	$4,238,074
	Grants to Local Governments for Staffing and Operational Needs	$772,000
	IFA Subtotal	**$36,146,553**
BIT	Emerging Industries Studies	$551,514
	New and Emerging Opportunities Program	$25,000,000
	Loan-loss Reserve Program	$10,000,000
	Municipal Wildfire Assistance	$6,000,000
	Pass-through to Travel Oregon for Outfitter Grants	$10,000,000
	Solar Incentive Program	$3,587,445
	Portland Japanese Garden	$2,000,000
	BIT Subtotal	**$57,138,959**
	Total	**$93,285,512**

	2021-23 General Fund Investments for Fund Capitalization Phased-Out in Package 022	
IFA	Oregon Brownfield Properties Revitalization Fund	$4,827,400
	Special Public Works Fund	$50,000,000
	IFA Subtotal	**$54,827,400**
BIT	Disadvantaged and Emerging Small Business Loan Fund	$10,000,000
	Eastern Oregon Border Economic Development Board Fund	$6,000,000
	SB 1579 Economic Equity Investment Fund	$15,000,000
	Oregon Rural Capacity Fund	$500,000
	POP 801 University innovative research fund	$5,000,000
	BIT Subtotal	**$36,500,000**
	Total	**$91,327,400**

Lottery Funds expenditure authorizations allocated for one-time direct expenditures in 2021-23 were removed from the budget as detailed in the following table:

	2021-23 Biennium LF Investments Phased-Out in Package 022	
IFA	Columbia Corridor Drainage Project	$283,034
	Port Orford Seafood Hub Redevelopment	$1,600,000
	IFA Subtotal	**$1,883,034**
BIT	World Track Championships	$10,000,000
	Tech Assistance for Underrepresented Businesses	$9,000,000
	Non-Pics Services and Supplies for LD Positions	$21,000
	LF Commitments from 2019-21 Biennium Carried-Forward to 2021-23	$3,988,000
	BIT Subtotal	**$23,009,000**
Operations	Non-Pics Services and Supplies for LD Positions	$59,000
	Total	**$24,951,034**

A portion of certain authorized Other Funds and Federal Funds expenditure limitation that was established or increased during the 2021-23 biennium is either phased-out with a residual amount re-established or carried-forward in the base budget to be expended in the 2023-25 biennium at the Current Service Level. Carried forward limitation for the Economic Equity Investment Fund, University Innovative Research Fund, and Disadvantaged and Emerging Small Business Loan Fund are for the expenditure of General Fund monies used to capitalize those funds in the 2021-23 biennium.

	2021-23 Biennium Other Fund Expenditure Limitation Amounts Carried-Forward to 2023-25										
	Item	**Authorized 2021-23 Amount**		**Phased-Out in Package 022**		**Re-established In Package 021**		**Carried-Forward in Base**		**Total Limitation Carried-Forward**
IFA	Broadband ARPA Capital Projects	$156,795,418		$156,795,418		$107,000,000				$107,000,000
	Seismic GO Bond Proceeds - Emergency Services Buildings	$50,000,000		$50,000,000		$30,000,000				$30,000,000
	Seismic GO Bond Proceeds - Schools	$110,000,000		$110,000,000		$100,000,000				$100,000,000
	Levee Grant Program LF Bond Proceeds	$15,000,000		$15,000,000		$7,500,000				$7,500,000
	County Fair Capital Improvements Bond Proceeds	$10,000,000		$10,000,000		$5,000,000				$5,000,000
	Broadband Funding Transferred from PUC	$1,500,000						$1,500,000		$1,500,000
BIT	SB 1579 Economic Equity Investment Fund	$14,836,930		$14,378,202		$11,575,000				$11,575,000
	University Innovative Research	$5,500,000		$5,500,000		$3,000,000				$3,000,000
	Rural Broadband (ARPA)	$287,800						$287,800		$287,800
	Disadvantaged and Emerging Small Business Loan Fund	$10,000,000						$10,000,000		$10,000,000
	Total	**$373,920,148**		**$361,673,620**		**$264,075,000**		**$11,787,800**		**$275,862,800**

	2021-23 Biennium Federal Fund Expenditure Limitation Amounts Carried-Forward to 2023-25									
	Item	**Authorized 2021-23 Amount**		**Phased-Out in Package 022**		**Re-established In Package 021**		**Carried-Forward in Base**		**Total Limitation Carried-Forward**
BIT	EDA Grant for Credit Enhancement Program	$11,000,000		$11,000,000		$4,000,000				$4,000,000

It's somewhat notable that expenditure limitation was carried-forward in the base budget for the broadband funds transferred from PUC to OBDD and for the Rural Broadband ARPA funding. The revenues for both items are one-time allocations, but by extending the expenditure limitation in the base budget, the budget implies that the limitation is needed continuously. This may be the case for PUC funding should additional transfers be made, but it is anticipated that the Rural Broadband funding will be completely expended in the upcoming biennium and the expenditure limitation removed for the 2025-27 biennium.

Remaining one-time increases in Other Funds and Federal Funds expenditure limitation that did not have a component that was carried-forward totaled over $876.5 million and were eliminated from the Current Service Level for 2023-25 as detailed in the following table:

	2021-23 Biennium OF Limitation Phased-Out in Package 022 (Excluding Items with Carried-Forward Limitation)	
IFA	Bond COI - Brownfields	$180,480
	Bond COI - Levee Grant Program	$211,079
	Bond COI - Seismic	$2,050,000
	Bond COI - Special Public Works Fund	$648,200
	Bond COI - Non-Specified	$300,563
	Salem Drinking Water Project	$20,000,000
	Tide Gate and Culvert Repair Grant Program	$2,940,041
	Regional Infrastructure Bond Proceeds	$4,700,000
	ARPA Funded Water Projects	$293,081,109
	Non-PICS Personal Services Costs for Limited Duration Positions	$230,126
	Energy and Environmental Research Center	$242,719
	City of Sweethome Wastewater Plant Upgrade	$2,000,000
	Accumulated Base Budget Limitation for General Obligation Bonds Not Previously Phased-Out	$447,941,420
	Subtotal IFA	**$774,525,737**
Arts	Bond COI - Capital Improvement Projects for Arts and Cultural Venues	$361,350
	Beaverton Arts And Lincoln City Cultural Center Projects	$2,551,260
	Bond Funded Capital Improvement Projects for Arts and Cultural Venues	$9,149,378
	Community Foundation Grant for Artist Resiliency	$1,500,000
	Community Foundation Grant for County Cultural Coalition Operations	$180,000
	Subtotal Arts	**$13,741,988**
BIT	Eastern Oregon Border Economic Development Board	$6,000,000
	Oregon Rural Capacity Fund	$500,000
	Oregon Metals Initiative	$475,000
	Cultural Venues	$50,000,000
	Rural Broadband (CRF)	$287,800
	Subtotal BIT	**$57,262,800**
Operations	Non-Pics Services and Supplies for LD Positions	$25,475
	Total	**$845,556,000**

	2021-23 Biennium FF Limitation Phased-Out in Package 022 (Excluding Items with Carried-Forward Limitation)	
IFA	Community Development Block Grant	$18,378,268
Arts	National Endowment for the Arts Grant	$803,500
BIT	EDA Broadband Mapping and Economic Recovery Planning	$838,652
BIT	CARES Act Grant for capitalization of the Entrepreneurial Development Loan Fund	$11,000,000
	Total	**$31,020,420**

The Current Service Level erroneously phased out $293 million of Other Funds Expenditure limitation for American Rescue Plan Act (ARPA) monies allocated to OBDD for water projects without carrying-forward or phasing in expenditure limitation for the anticipated residual unexpended amounts for those projects that will be required in the 2023-25 biennium. The agency currently estimates that $264 million of the amount authorized in the 2021-23 biennium will remain unexpended and will have to be re-established in the 2023-25 biennium so that the funding can be distributed as the projects are completed. Contracted completion date for most of the projects is September 2026, so some expenditure limitation may need to be carried forward to the 2025-27 biennium.

Additional budget enhancements that were made during the 2021 and 2022 legislative sessions that have continued at the Current Service Level for the 2023-25 biennium include:

- Addition of a Senior Application Developer position and IT Project Manager position in the Operations division as part of the agency's IT modernization initiative.
- Three management positions established within the economic development division of the Business, Innovation and Trade program to address program administration capacity, span of control, and program delivery issues.
- Ongoing additional funding of $2 million Lottery Funds for the Rural Opportunity Initiative in the BIT division to support entrepreneurship-based economic development in rural communities.
- $300,000 Lottery Funds to support professional services contracts for Oregon export and business development services that represent Oregon small business exporters, and food and agriculture producers/processers in Canadian markets.
- Increased funding for the Small Business Development Center program of $1 million Lottery Funds
- Ongoing additional funding of $750,000 Lottery Funds for the Manufacturing Extension Partnership program

Policy Issues

- Financial support and associated incentives for the semiconductor and other industries
- Capitalization of grant and loan funds
- Diversity, Equity, and Inclusion in markets and capital access
- Continuation and/or expansion of funding for R&D innovation hubs and commercialization of research
- Deployment of broadband infrastructure funding. There are conflicts between current statute and federal guidance on the delivery and implementation of broadband funding. OBDD has developed a draft legislative concept that the agency believes will harmonize these differences, but that concept has yet to be approved by the incoming Governor.
- Agency organization. Although not reflected in the agency's requested budget, the agency is actively working through the initial steps to reorganize the agency under two primary reporting lines; Chief Operating Officer and Deputy Director. The COO oversees the administrative and shared agency services while the Deputy oversees three program administrators, each with a suite of program managers below them. This activity is related, but not directly resultant from the development of the agency's updated strategic plan.

Governor's Budget Summary

The Governor's budget includes three policy packages to bring forward actions taken by the Emergency Board following the development of the Current Service Level. These actions included the approval of ongoing, permanent costs, or one-time adjustments to the agency's budget in the 2021-23 biennium that need to be reestablished via policy packages to address unexpended funding allocated in the current biennium.

Increased Federal Funds expenditure limitation of $26.5 million was approved by the Emergency Board during the June 2022 meeting for the expenditure of the first tranche of funding awarded to OBDD under the State Small Business Credit Initiative program from the U.S. Treasury Department. The federal funding will be used to expand venture capital programs, loan participation programs, loan guarantee programs and technical assistance programs. Four permanent positions were authorized to be established in conjunction with the funding. The Governor's budget carries forward the expenditure limitation and position authority as a modification to the Current Service Level. However, the expenditure amount included in the Governor's budget was increased to $83.5 million. This amount represents the entire amount of federal support for the program through 2031. The original $26.5 million was for the first of three tranches of funding from the federal government for the program and the agency had indicated that it didn't expect to request access to the next tranche until late in 2024.

The Emergency Board approved the application by OBDD for federal grant funding from the U.S. Department of Commerce, National Telecommunications and Information Administration, for Broadband Equity, Access, and Deployment, and for State Digital Equity Planning during its September 2022 meeting. Federal grant funding from these programs is anticipated to be in excess of $100 million. In advance of awarded funding, the Emergency Board authorized seven permanent positions and one limited-duration position to be established in the current biennium. The Governor's budget carries forward Federal Funds expenditure limitation of $3,838,878 and position authority as a modification to the Current Service Level.

Also, during the September 2022 Emergency Board, the Oregon Business Development Department was granted an increase in its Federal Funds expenditure limitation of $3.9 million to allow the agency to expend federal grant fund received from the U.S. Environmental Protection Agency for the Brownfields program. The Governor's budget reestablishes the $1.6 million unexpended portion of these fund as a modification to the Current Service Level.

Other Funds expenditure limitation of $10 million was provided by the Emergency Board during the September 2022 meeting for the expenditure of funds transferred to OBDD from the Department of Revenue under the Industrial Site Readiness Program. The program provides a mechanism for a local government to recover the costs associated with the preparation of an industrial site for use through the receipt of up to 50% of the state income tax paid by employees working at that site whose median wage is at least 150% of the count or state median wage, whichever is less. About $4.5 million of the total $10 million is for payments related to the 2020 tax year and will be used before the current biennium. The remaining $5.5 million is for payments related to the 2021 tax year and while it is currently anticipated

that those payments will be made by the end of the current biennium, it is possible that the residual balance will need to be carried forward in to the 2023-25 biennium. The Governor's budget included a placeholder Other funds expenditure limitation of $1 for this purpose.

Two policy packages included reductions in expenditures from the Current Service Level. These were an increase in assumed vacancy savings totaling $1.15 million, all funds, and elimination of inflation for certain services and supplies expenditure categories totaling $173,359 Lottery Funds.

The Governor's budget re-established General Fund appropriations totaling $26.9 million for six projects that were funded in the 2021-23 biennium, but for which the funding not fully expended. Additionally, Other Funds expenditure limitation of $264.1 million was included for the expenditure of American Rescue Plan Act (ARPA) monies allocated to OBDD for water projects. The original $293 million for these projects had been phased out at the Current Service Level as discussed previously.

The Governor proposes to use $200 million in Lottery Funds to capitalize a fund to provide incentives to leverage federal funds, including the CHIPS and Science Act of 2022. Neither the proposed fund or a program exist currently at the agency and legal authority to establish each would be required for the agency to expend the funding. Similarly, the Governor's budget requests $100 million in net lottery revenue bond proceeds and $10 million in Lottery Funds for a yet-to-be-established early childcare assistance program.

Additional bond authorization requested in the Governor's budget includes $90.5 million in lottery revenue supported bonding for capitalization and matching funds for the Special Public Works Fund, and $150 million in General Fund supported bonding for the Seismic Rehabilitation Grant Program.

An increase of $2.1 million Lottery Funds and $396,050 Other Funds are requested to continue the agency's investments in information technology programs and personnel. The package includes the addition of three positions.

A significant expansion of the Certification Office for Business Inclusion and Diversity is contemplated by two policy packages adding six new positions directly in the COBID program within the Business, Innovation, and Trade division, and one supporting positions in the Operations division. The combined cost of the packages is $1.97 million, all funds, but in a departure from the standard, assessment-based funding, the supporting position to be established in the Operations program, and one of the positions to be established in the Business, Innovation, and Trade division are requested to be funded by $444,033 General Fund rather than through the standard assessment charged to contracting agencies that fund the program currently.

Expanded Lottery Funds support for existing programs include the addition of $5 million for the Technical Assistance program and $2 million for the Rural Opportunity Initiative. The Technical Assistance for Underrepresented Business program was provided $9 million in Lottery Funds in the 2021-23 biennium on a one-time basis. This funding is requested as ongoing and includes additional funding for the

establishment of a permanent position to administer the program. The Rural Opportunity Initiative program funding would double with the addition of the requested monies.

Two policy packages totaling $1.3 million Lottery Funds, $478,151 Other Funds, and $206,840 Federal Funds are for the continuance of limited-duration positions that were either provided as limited-duration in the prior biennium or are requested as expansion of general program administration.

A legislative concept from the Cultural Trust is associated with policy package that would increase the current administrative expense cap from the Cultural Trust. The new cap would be based on a percentage of the Trust's intermediate-term pool account, currently valued at $34 million. This would allow for a small reduction in General Fund support for the Trust, an increase in its marketing budget, and the increase in support to move an executive support position to full time.

Key Performance Measures

A copy of the Business Development Department's Annual Performance Progress Report can be found on the LFO website: https://www.oregonlegislature.gov/lfo/APPR/APPRProposed_OBDD_2022-10-04.pdf