

Oregon Business Development Department (OBDD)

	2013-15 Actual	2015-17 Legislatively Approved*	2017-19 Current Service Level	2017-19 Governor's Budget
General Fund	8,247,488	16,519,023	48,336,099	60,473,239
Lottery Funds	111,766,523	113,307,730	117,298,708	110,523,470
Other Funds	34,855,259	298,486,355	225,742,435	450,529,959
Other Funds (Nonlimited)	121,639,577	233,101,465	207,886,281	377,148,947
Federal Funds	29,226,631	40,523,014	40,730,835	40,969,130
Total Funds	\$305,735,478	\$701,937,587	\$639,994,358	\$1,039,644,745
Positions	134	140	138	136
FTE	130.88	136.32	136.00	134.00

* Includes Emergency Board and administrative actions through December 2016.

Program Description

The Oregon Business Development Department (OBDD) provides economic and community development and cultural enhancement throughout the state, administers programs that aid businesses and communities, and administers the Seismic Rehabilitation Grant Program.

The Department has six budget program areas:

- The **Shared Services/Central Pool** program area includes central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure Finance Authority) programs.
- The **Business, Innovation, Trade** program area includes the staff, and the funding sources, used by the Department to provide support services, grants, and loans to assist businesses with job retention and creation, and to promote trade and innovation. This program area operates a variety of programs and uses a variety of funding sources. The largest of these programs are the Oregon Innovation Council (Oregon Inc) Innovation Plan, and the Strategic Reserve Fund. The Business, Innovation, Trade program area is the agency's largest in terms of staffing, housing 43% of the agency's employees, and is primarily financed with Lottery Funds. The new Solar Incentivization Program is financed with General Fund.
- The **Infrastructure Finance Authority** (IFA) 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 the IFA. In the 2015 session, the Brownfields, Industrial Lands and Broadband programs were transferred internally to IFA from the Business, Innovation and Trade Division.

- 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 ***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 general obligation bonds financing the Seismic Rehabilitation Grant Program (Article XI-M and Article XI-N bonds). 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.

Additional details on the agency and its budget are available in the Legislative Fiscal Office’s 2015-17 Legislatively Adopted Budget Detailed Analysis, which can be accessed at: <https://www.oregonlegislature.gov/lfo/Documents/2015-17%20LAB%20Detailed%20Analysis.pdf> .

CSL Summary and Issues

There are two large expenditure increases included in the current service level (CSL) calculation:

- Debt Service - There is a \$29.2 million (or 356%) increase in General Fund debt service costs. This reflect the impact of issuing \$207.3 million of general obligation bonds in the 2015-17 biennium to finance seismic rehabilitation grants for schools and emergency services facilities. There is also a \$6.1 million (or 13.4%) increase in Lottery Funds debt service costs, which reflects the impact of issuing \$51.3 million of lottery revenue bonds in the 2015-17 biennium to finance OBDD-administered programs and projects. Current service level combined GF/LL debt service costs total \$91.8 million, or 55.4% of total GF/LF expenditures in the CSL budget.
- Solar Incentivization Program - The 2016 Legislature established a new program that provides financial incentives for solar-powered electricity production. The program awards one-half cent per kilowatt hour for electricity produced by qualifying solar photovoltaic energy systems that connect to an investor-owned or publicly-owned utility. There is a phase-in cost of \$2.5 million General Fund as the program will be in effect both years of the 2017-19 biennium. Note also that the CSL does not include an additional \$219,995 GF needed for the position approved to manage the program. This amount will need to be approved in a policy option package if the program is continued.

The CSL does not include funding for several major OBDD programs that may eventually be included in the agency budget.

- One-Time Programs – The current service level does not include funding for any programs that were approved in the 2015-17 biennium on a one-time basis, either because they were funded with bond proceeds, or because they were otherwise so designated by Ways and Means. These programs include:
 - Regional Solutions – Funded with \$2 million of Lottery Funds (all for the Regional Accelerator and Innovation Network) and \$13 million of lottery revenue bond proceeds in 2015-17. There is no support for these programs included in the CSL. The Governor’s budget recommends adding \$500,000 of Lottery Funds for the Regional Accelerator and Innovation Network, and \$11 million of lottery revenue bond proceeds for regional solutions projects in 2017-19. Debt service costs for the bonds are projected to total \$2.1 million per biennium, beginning in 2019-21.
 - Seismic Rehabilitation Grants – Grants totaled \$205 million in 2015-17, and included \$175 million for schools and \$30 million for emergency services facilities. The grants are funded by Article XI-M and Article XI-N general obligation bonds. The Governor’s budget recommends adding \$200 million of bond proceeds for 2017-19, including \$160 million for schools and \$40 million for emergency services facilities. Debt service costs for the bonds are projected to total \$9.7 million in the 2017-19 biennium, and \$31.2 million per biennium, beginning in 2019-21.
 - Infrastructure Financing (Special Public Works Fund) – The 2015-17 budget provided \$18 million of additional capital to the Special Public Works Fund. \$5 million of the \$18 million was restricted to levee projects. Lottery revenue bonds are issued to provide the capital funds. The Governor’s budget recommends adding \$50 million of lottery bond proceeds for 2017-19, with \$10 million of the \$50 million restricted to levee projects. Debt service costs for the bonds are projected to total \$9.7 million per biennium, beginning in 2019-21.
 - Brownfields Redevelopment Fund – The 2015-17 budget provided \$7 million of additional capital to the Brownfields Redevelopment Fund. The Governor’s budget does not recommend additional capital in the 2017-19 biennium.
 - Cultural Resources Economic Fund – The 2015-17 budget provided \$4.5 million for cultural organization capital projects. The legislatively-designated fund recipients were the Oregon Shakespeare Festival, the Portland Japanese Garden, Oregon Public Broadcasting, and the Aurora Colony Historical Society. Lottery revenue bonds are issued to provide the capital funds. The Governor’s budget does not recommend any bonds for cultural projects in the 2017-19 biennium.

- Oregon Growth Fund – The 2015-17 budget provided \$500,000 Lottery Funds to the Oregon Growth Fund (OGF). OGF funds are used to expand capital to Oregon companies to support economic growth. The Governor’s budget does not recommend additional support for the Oregon Growth Fund in the 2017-19 biennium.

Oregon InC – The current service level includes funding for Oregon Innovation Council initiatives for the first time. 2015-17 biennium support totaled \$18.1 million Lottery Funds, and the 2017-19 biennium CSL includes \$18.6 million for Oregon InC. The Legislature directed OBDD to identify the funding levels for individual initiatives in the current service level budget, though that information was not included in the agency request budget. The Governor’s budget recommends reducing Oregon InC funding \$17.8 million, an \$800,000 reduction from CSL.

Policy Issues

The Governor’s budget moves the Small Scale Energy Loan Program (SELP) from the Department of Energy to the Oregon Business Development Department. The SELP program offered long-term loans for energy conservation, renewable energy and alternative fuels projects, and for the production of products from recycled materials. The program has operated since 1981, and is funded from general obligation bond proceeds. The program was designed to be self-supporting. Loan fees and charges and interest earnings were to cover administrative costs, and loan repayments were to pay debt service on the general obligation bonds. The general obligation bonds, however, are ultimately secured by the faith and credit of the state of Oregon.

However, following a number of loan defaults, SELP is currently insolvent, and no new loans are being made. As of June 15, 2016, total loan losses equaled approximately \$33.7 million, and were attributable to fifteen loans. Current projections of loan portfolio income indicate that beginning in 2020, and continuing through the 2033-34 fiscal year, a total of approximately \$16 million in cash infusions will be needed to meet the scheduled debt service obligations on the general obligation bonds that have been issued to finance SELP projects.

SELP would be moved to OBDD in the Governor’s budget. The program would still not be able to make any new loans, but OBDD would inherit management of the existing loan portfolio. The agency would then need cash infusions, in the future, to pay the portion of debt service that is not covered by the remaining loan repayments. The Governor’s budget includes \$2.76 million of General Fund in the 2017-19 biennium for OBDD for SELP. This support would offset a portion of the \$16 million cost of the defaulted loans, however, the program could continue to operate (without providing new loans) in the 2017-19 biennium, without this or any other level of General Fund support.

Other Significant Issues and Background

The Governor’s recommended General Fund and Lottery Funds budget for OBDD includes \$8.7 million of reductions from the current service level. Offsetting these reductions are \$1.5 million of Lottery Funds for programs not included in the CSL, including \$1 million for a new Rural Entrepreneurship Development Initiative, and \$500,000 to continue support, at a reduced level, for the Regional Accelerator and Innovation Network.

The \$8.7 million of Lottery Funds and General Fund reductions include the following items:

- Strategic Reserve Fund - \$3.9 million (-36%)
- Agency Operations [Business, Innovation and Trade Division] - \$1.8 million (-13.6% of Lottery Funds and -9.7% of total support)
- Oregon Innovation Council - \$0.8 million (-4.3%)
- Agency Operations [Central Operations] - \$0.7 million (-9.3% of Lottery Funds and -7.2% of total support)
- Arts Commission - \$0.5 million (-12%, including a -30% reduction in General Fund arts grants support)
- Agency Operation [Infrastructure Division] - \$0.4 million (-26.3% of Lottery Funds and -3.7% of total support)
- Industry Competitiveness Fund - \$0.3 million (-10%)
- Oregon Film and Video Office - \$0.2 million (-15%).

The Governor's budget also adds \$2.76 million in General Fund support for the SELP program transfer. This program is transferred to OBDD from the Department of Energy, where it currently operates on a self-support basis without General Fund money. The General Fund in the Governor's budget includes \$2 million for direct application toward meeting future debt service payments on the general obligation bonds issued to finance now-defaulted SELP loans, and \$760,199 to pay for program administration, currently paid from SELP program income.

Finally, the Governor's budget adds \$9.7 million of General Fund, to support early issuance of a portion of the general obligation bond support of the Seismic Rehabilitation Grant Program. Under the Governor's bond proposal, \$120 million of the \$200 million for the program would be financed from bonds issued in the spring of 2018, with the remaining \$80 million of projects financed from bonds issued in the spring of 2019. The \$120 million of bonds issued in 2018 generate \$9.7 million in debt service costs in 2017-19; debt service on the \$80 million of bonds issued in 2019 does not become due until the 2019-21 biennium.

The various reductions and additions in the Governor's budget sum to a net \$5.4 million (or 3.3%) increase in General Fund/Lottery Funds expenditures over the current service level.

Co-Chair Budget Framework Discussion

The Joint Ways and Means Committee Co-Chairs' 2017-19 Existing Resources Budget Framework includes a 6% reduction from current service level in operating expenditures for agencies in the Economic and Community Development program area. The total amount of General Fund and Lottery Funds expenditures in the OBDD current service level budget for operations (i.e., excluding debt service expenditures) is \$73.8 million. A 6% reduction applied to the Oregon Business Development Department budget would therefore be equal to approximately \$4.45 million.