
Jobs for Today. Jobs for Tomorrow.

A Strategy for Oregon's Economic Prosperity

John Kitzhaber
for Governor 2010

January 11, 2010

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My Fellow Oregonians:

A robust economy is the foundation for Oregon's future. My top priority as Governor will be to transform Oregon's economy into one that is strong, resilient, internationally competitive and insulated from the boom/bust cycles that have plagued us in the past. This will necessarily require similar transformational changes in a number of other major systems including education, public finance, health care, energy, and community development.

This transformational change must enhance rather than deplete our natural environment and the quality of life that so characterizes Oregon; and it must reach across urban and rural Oregon, with the goal of increasing the per capita income in each region of our state above the national average. During the years I served in the Oregon Legislature and as Governor, I have gained a set of experiences, perspectives—and some hard lessons learned—that can help Oregon make this important transition.

This is a tall order and it is not going to be easy. Oregon's "boom and bust" economic cycle has interfered with stable investment in education and workforce training. This has led to falling per capita income as compared to other states; which, in turn, has made it ever more difficult to adequately support the public infrastructure on which stable, long term economic growth and prosperity depend.

As all my predecessors did, I tried to manage Oregon two years at a time around a biennial budget. There was no long term plan. We too often argued about the wrong things and asked the wrong questions. Too often, we focused on how much we were spending rather than what outcomes we were getting for our dollars. We dwelled on what we spent last year rather than asking what we needed to invest today, to get the results we wanted tomorrow. We relied on existing structures and mechanisms to deliver services, not because we had carefully analyzed them and decided they were the best—but because we had always done so. It is time to change that.

During the last seven years in the private sector, focusing on system change in health care, energy and natural resource management I have come to realize that the root of our problem lies in the fact that almost all of our public "systems"—from education to health care to transportation—were designed and put in place at the end of the 19th century and first half of the 20th century.

While these old systems made sense at the time they were created, they have not evolved to meet the changing environment around them and are no longer adequate to meet the very different and complex challenges of the 21st century world. As I learned the hard way during my terms as Governor, it is not enough just to change policies or policy makers. If Oregon wants a different future and a different set of outcomes, we need to change the systems through which public services are provided.

Why hasn't this happened before? For most of my eight years as governor, Oregon had a strong economy with expanding state revenues. In that environment it was very difficult to get anyone interested in system change. It seemed that there was always more money. Today, however, Oregon's revenue picture is much different than it was during the boom years of the 1990s. But precisely because extra money is no longer available to paper over these systemic, structural issues, we have an unprecedented opportunity for the kind of transformational change that was simply not possible a decade ago.

Successfully making this change requires three things. First, we must find the courage to challenge the structures and assumptions of some of our most cherished programs—in education, social services, public safety, environmental stewardship, energy and economic development as well.

Second, it requires jettisoning our current state budget process which is inadequate for the kind of transformational change we need; and replacing it with one based on transparent, long term performance-based investment allowing us to set clear priorities among the difficult fiscal choices which will define the next biennium.

Finally, because such a transformation cannot happen overnight or over the course of a single biennium, it will require a sustained and consistent effort over the next ten years. This effort must be built on such a solid foundation that it can be sustained and continue to move forward regardless of changes in the executive branch or in the make-up of the legislature.

That's why it will be so important that our leaders and citizens alike can work together, not just to ensure we fully understand the past, but to enable us to then focus on the future. I believe, as Governor, I can bring to this generation-defining task that understanding, as well as the vision necessary to lead the transformational changes required to create for our state a more stable and prosperous future.

This is the first of a series of papers which will describe that vision as well and the practical steps—and difficult decisions—we will have to make to realize it.

A handwritten signature in black ink, appearing to read "John Kitzhaber". The signature is stylized and cursive, with a large initial "J" and "K".

John Kitzhaber

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A Strategy for Oregon's Economic Prosperity

The current recession has cast a harsh light on a perennial Oregon problem: our state remains trapped in a “boom and bust” pattern that makes us oversensitive to national and global economic dislocations. The effects are felt throughout the state: high unemployment, stagnant personal income and repeated funding crises for public services like education, health care and transportation—services that form the foundation of a strong, competitive economy.

Breaking this cycle is the single most immediate and important issue facing Oregon. We have many of the ingredients necessary for a strong, resilient economy, but there are critical gaps and a need to put these elements together as a strategy.

The Goal

An Oregon economy that:

- Is strong, diversified, globally competitive and recession resistant.
- Reaches across urban and rural Oregon to increase per capita income in each region of our state above the national average.
- Generates enough family wage jobs to keep Oregon's unemployment rate consistently below the national average.
- Generates public revenue sufficient to support the services necessary to ensure the health, safety and social and economic success of Oregonians.

The Strategy

- 1. Act on immediate opportunities to stimulate job growth.**
Strengthening and transforming Oregon's economy will require a sustained long-term effort but we first need to deal with the immediate problems of the thousands of Oregonians who are trying to get by in today's recession.
- 2. Diversify Oregon's economy with a new framework for economic development.**
This entails a 4-part economic strategy that addresses our place in the global economy, strengthens economic activity within our borders, and stimulates innovation and research that establish Oregon as a leader in technology and knowledge-based exports.
- 3. Create the fundamental conditions for long-term job creation and prosperity.**
Achieving these conditions will require transformational changes in a number of major systems including education, public finance, health care and energy. This should start with turning the Oregon Business Plan into a set of specific actions.

Specific Actions

1. Immediate Job Creation

- **Access to Capital.** Help companies access the capital they need to grow.
- **Promote Energy Efficiency** that creates immediate jobs; saves money that can be reinvested in the Oregon economy and reduces global warming.
- **Invest** in transportation infrastructure that creates immediate jobs and provides the underpinning of any successful economy.
- **Put people back to work in rural communities** by aggressively pursuing environmentally responsible forest thinning which can improve forest health and produce “woody biomass” that can be used for renewable energy.
- **Connect Oregonians to work through training** for high-demand jobs, such as health care workers, technicians and welders.
- **Aggressive business retention and recruitment.** Oregon has fallen behind other states in the “nuts and bolts” of basic business retention and recruitment.

2. Diversify Oregon’s Economy with a Four-Part Economic Development Strategy

To make Oregon’s economy more resilient, stable and resistant to global and national fluctuations, we must organize economic development efforts around the following framework:

- **Oregon to the World**—Sustain and attract “traded sector” businesses that bring additional jobs and dollars into our state and local economies. Build integrated clusters of companies in industries where Oregon has unique resources, capabilities and talents.
- **Oregon to Oregon**—Emphasize the use of Oregon-based companies to supply other Oregon companies. Local sourcing and supply chains re-circulate capital within the state and strengthen Oregon businesses and the Oregon economy.
- **Home to Oregon**—Oregon’s households, neighborhoods and communities (the community sector) present a tremendous, under-developed opportunity to spur Oregon’s recovery and to hedge against downturns in the business cycle.
- **Oregon Leads**—Oregon is well positioned to leverage its leadership in innovation, creativity and sustainability into addressing key global challenges through a new business cluster focused on ecosystem technology and knowledge-based exports.

3. Create the Fundamental Conditions for Long-Term Job Creation and Prosperity

John Kitzhaber helped launch the Oregon Business Plan in 2002 during the last recession. Before that, Oregon had no comprehensive plan to create jobs and grow its economy. Now Oregon has a bi-partisan strategic framework developed by Oregon’s top business executives, elected officials and community leaders to create a stronger, more competitive and robust Oregon economy. Creating the conditions for long term job creation and prosperity requires that we turn key elements of the Oregon Business Plan into a set of specific actions. These include:

- Reforming education from pre-school through postsecondary education.
- Create an environment that fosters innovation, research and productivity.
- Restructure our public finance system to make it more stable and rational.

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Breaking this cycle is the single most immediate and important issue facing Oregon. We have many of the ingredients necessary for a strong, resilient economy, but there are critical gaps, and a need to put these elements together as a strategy.

Vision for Oregon’s Economy

Oregon will have a strong, diversified, globally competitive and recession-resistant economy that generates enough jobs to keep Oregon consistently below the national average unemployment rate. Oregonians in every region of the state will enjoy family wage jobs with rising incomes which are consistently above the national average. The Oregon economy—coupled with a stable system of public finance—will generate adequate public revenue to support those services that are critical for the health, safety and success of our state.

Existing industries including semiconductors, software, advanced manufacturing, forest products, agricultural and food products, and sports apparel will lead their fields in product innovation and sustainable practices. Emerging industries in renewable energy and clean technology will thrive. Oregonians will harness the innovation in their local communities to support these endeavors, create new ones, and make the whole economy more productive and sustainable.

A robust economy with ample family wage jobs is the foundation for Oregon’s high quality of life and is necessary to fund quality education and other public services. Excellent public infrastructure and services in turn are necessary to support Oregon’s growing economy. This virtuous “circle of prosperity” is the foundation upon which all initiatives to improve Oregon are built.

Transforming Oregon’s economy will not be easy. It will necessarily require related transformational changes in other major systems including public education, public finance, health care, energy, and community development.

The strategy outlined below describes how Oregon can transition to a stronger and recession-resistant economy. It is organized around three priorities:

- 1. Acting on immediate opportunities to stimulate job growth.**

Strengthening and transforming Oregon’s economy will require a sustained long-term effort but we first need to deal with the immediate problems of the thousands of Oregonians who are trying to get by in today’s recession.

- 2. Diversifying Oregon’s economy with a new framework for economic development.**

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Strategy for Oregon's Economic Prosperity

1. Specific action plan for immediate job creation

The Governor must take action now to put people back to work and reduce Oregon's high unemployment rate. The reality is that there are no silver bullets, it will take time to get Oregon back to low unemployment and the state has limited resources to fund this effort. Rather than an excuse, this reality simply means we have to act much more aggressively now in order to minimize delays on a number of innovative efforts since no one thing will be sufficient. One of the most important guides for recovery will be to insure that Oregon's private sector businesses and the Governor are working together to target priority recovery efforts and create jobs. Furthermore, our immediate actions must be consistent with Oregon's long-term economic plan. Immediate actions we can take to put more Oregonians back to work quickly include:

Help Companies Access Capital to Grow

We know that if companies are not able to access credit and investment capital, for start-ups or to grow and expand, economic recovery will stall. This is a very complex and very important challenge and unfortunately there are no easy or quick solutions.

However, when we use the words "capital access" many often think immediately of "venture capital." And while venture capital is a very important part of Oregon's economic picture, particularly given that Oregon is primed for activity in clean technology and healthcare/biosciences, very few companies are actually the targets for venture capital. Furthermore, larger companies still have access to capital through financial institutions even though the lending criteria may be more stringent than they were a year ago. The real problem is for the small and mid-sized businesses which not only provide the majority of jobs in Oregon but which will be very important for both short term and long term economic growth. These are the businesses which have traditionally relied on community bank loans to access the capital they need.

Yet our community banks are in deep crisis of their own—struggling with the burden of devalued real estate loans and higher capital asset requirements imposed by federal regulators. In many cases these community banks do not have the capacity to make loans even if they wanted to. The reality is that credit access to the small business sector is very tight and will remain tight over the next 18 to 24 months.

As a result Oregon must place a high priority on developing creative strategies to address this problem until the financial markets recover. Some possible approaches (which will be discussed in more detail later in this paper) include:

- **Renewable energy projects**
Targeted use of incentives like the business energy tax credit can stimulate and catalyze capital to flow to Oregon rather than to other states.
- **Direct foreign investment**
China needs to find ways to invest its substantial currency reserves. Renewable energy, transportation, and natural resources companies are looking to create a North American presence by investing in manufacturing and energy projects and Oregon should attract this investment.
- **Oregon's public and private forests**
There is a growing recognition of new economic values within our forest sectors which can attract capital investments. These include carbon sequestration and other ecosystem services; and the use of woody biomass for energy production.
- **Maximize the value of federal stimulus investments**
This involves steps like organizing and coordinating investment targets; assisting private sector businesses access federal loan programs; and supplementing federal allocations in ways that attract additional private or public investors. Oregon has a limited capacity for the latter step as the state budget crisis will make it difficult to make large moves in this direction. With only limited state funds available, it is imperative for us to maximize and leverage additional private investments with our dollars, targeting capitol assistance toward our greatest opportunities for job retention and growth. Through ONAMI, Oregon has successfully brought together our universities, private sector companies, and federal dollars to create commercial cutting edge nanotechnology applications and spin out new companies.
- **Provide expertise and services to successful homegrown businesses ready to expand dynamically**
Locally started businesses with 10 to 99 employees have been shown to create more jobs than companies at another stage of development. However, these businesses also often lack access to sophisticated information resources and sources of capital. It is important that we use available resources to help connect these businesses and help them reach their job-creating potential.
- **Connect private, state, and community financing with private union retirement fund financing**
Union pension funds are often utilized to help finance capital construction projects. Most frequently these funds are invested to provide bridge financing to meet project needs. There is an opportunity to explore methods of finance collaboration for some of our strategic opportunities.

The expectation is that credit for both consumers and businesses will remain tight through the year as bad loans and lending practices continue to work their way through the system. Until this situation improves considerably, Oregon must aggressively pursue opportunities to make capital available to business of all sizes. None of the actions identified here are a substitute for recovery of America's banking and financial system. However, it is imperative that the Governor, the state and business leadership work closely together to focus on both short and long term solutions.

Energy Efficiency

Energy efficiency—the kilowatt-hours and gallons of gasoline that we do not use—is the cheapest, cleanest and quickest energy resource to deploy. Good-paying jobs are created by designing and installing energy efficient insulation, lighting, building materials, appliances, vehicles, heating and cooling systems, effective transit systems and countless other technologies in homes, schools and businesses. Significantly increasing the speed and scope of investments in energy efficiency in homes, buildings and industry is a strategy to create jobs in the near-term while saving Oregonians, businesses and government significant money over the long-term that can be invested in more productive activities. It also reduces local air pollution and global greenhouse gas emissions.

Oregonians have long been leaders in energy efficiency. A recent report from the American Council for an Energy Efficiency Economy ranks Oregon as the 4th most energy efficient state in the nation thanks to our progressive utility programs and policies, transportation choices, building codes, appliance standards, use of combined heat and power and state government initiatives.

The Obama administration’s focus on energy efficiency through, the American Recovery and Reinvestment Act (ARRA) and the US Department of Energy (USDOE), provides a unique opportunity to accelerate Oregon’s efficiency activities. At the same time, although Oregon is a leader, significant barriers have prevented widespread adoption of energy efficiency and the jobs it creates. These barriers include the lack of upfront financing, “disconnects” between costs and benefits (e.g. landlord owns the home and tenant pays the utility bills), misaligned incentives, and inadequate education/awareness.

This strategy of energy efficiency as a creator of family wage and permanent jobs is particularly well-suited to Oregon because of our strong “cluster” of companies and talent that perform energy audits, install energy efficient equipment, and consult with businesses on energy efficient practices and energy management strategies. The expertise that these companies and individuals develop here through our investments may ultimately be in demand in other regions and provide growth and export opportunities that further bolster Oregon’s economy.

Oregon has a real opportunity to dramatically increase the scope and speed of its energy efficiency investments without the need to spend significant state government resources. Strategies to move Oregon forward in this area include:

- **Protect and Refocus Existing Incentives.** The Residential Energy Tax Credit (RETC) and the Business Energy Tax Credit (BETC) provide homes and businesses, respectively, with a tax credit for investing in energy efficiency and renewable energy upgrades. The BETC has recently come under scrutiny as it relates to larger renewable energy projects. Adjustments to the BETC are necessary, but benefit reductions should focus on large projects that would happen anyway and available funds should concentrate on incentives for energy efficiency and other investments that create jobs more cost-effectively. Additionally, new mechanisms for transparency and accountability are critical so that Oregonians know what jobs and other benefits are being created from their investment in energy efficiency and renewable energy.

- **Expand Upfront Financing and Payback Options for Home and Commercial Efficiency Upgrades.** Leverage federal dollars from the ARRA and the USDOE. The ARRA has allowed Oregon to launch innovative programs including the “Clean Energy Works” program in Portland where homeowners can access low-interest loans, paid back through their monthly utility bills to retrofit their homes. The program has a workforce component that trains currently unemployed workers in completing some of the home energy audits and upgrades. The program creates a “one-stop-shop” through the Energy Trust of Oregon to make the process easy for customers. The program is unique in the nation and the ARRA includes competitive grants to expand innovative energy efficiency projects. Oregon should aggressively pursue these funds, work with stakeholders to expand the program throughout the state and include commercial property. By leveraging federal dollars with private investments, it is estimated that the “Clean Energy Works” program could be expanded to reach thousands of homes and businesses and create thousands of new jobs quickly while saving Oregon consumers, businesses and government real money.

Work with local banks and investors to develop and market additional low-interest loans for efficiency upgrades beyond the “Clean Energy Works” program. The “Green Street Lending” program, a partnership between Umpqua Bank and the Energy Trust of Oregon, is a working example of providing additional lending capacity for efficiency upgrades. More banks should adopt similar programs and investors should begin looking into energy efficiency as an investment strategy.

Accelerate implementation of House Bill 2626, which passed the Oregon legislature in 2009 with bipartisan support. The bill directs the Oregon Department of Energy (ODOE) to administer energy efficiency and sustainable technology loan program for the purpose of encouraging investments in energy efficiency and authorizes the State Treasurer to issue revenue bonds to administer the program.

- **Improve Incentives for Both Customers and Utilities.** The Obama administration is considering a proposal to create tax credits for homeowners who retrofit their homes. These would complement Oregon’s existing tax credits and rebate programs; making energy efficiency upgrades a very attractive investment for customers.

Currently, many rebate programs only apply to customers of certain utilities. We should work to ensure that incentives are in place for every Oregonian to invest in efficiency projects.

Having the right incentives in place for utilities is also important. For investor-owned utilities, Oregon’s Integrated Resource Planning (IRP) process requires that energy efficiency be considered by utilities as the lowest cost generation resource and utilities work hard to keep prices low for customers. Through technical adjustments to rates and other factors like customer use, “decoupling” reduces the financial disincentive for utilities to support energy efficiency by separating utilities’ profits from their levels of sales. Northwest Natural Gas has implemented “decoupling” and PGE is exploring this concept with a pilot project. Oregon should continue working with its utilities on these efforts to determine the right approach to ensure that everyone is rewarded for efficiency.

- **Improve Education and Awareness.** Create an energy performance score for homes and buildings so that buyers will be able to factor efficiency into their purchase decisions. This will require investments in energy auditing and will encourage homeowners to complete efficiency improvements. A good place to start is with the homes involved in the “Clean Energy Works” program and with other customers who have already made the decision to pursue efficiency upgrades through the Energy Trust and other programs.
- **Improve Codes and Standards.** Oregon should consider adopting an energy efficiency resource standard to complement Oregon’s renewable energy standard.

Oregon should continue the process already underway to advance building codes that insure new homes and offices are built to more efficient standards, rather than requiring expensive retrofits later.
- **Retrofit Government Buildings and Infrastructure, Starting with Schools.** The Government should set the example by upgrading public buildings and infrastructure, creating work for both small and large construction contractors. ARRA dollars are available and can create hundreds of jobs; costs to the state will be repaid through savings on future energy bills.
- **Help Existing Industries Retain Workers by Reducing Energy Costs.** When companies spend less on energy, they can spend more on expanding their businesses and hiring employees. Oregon should make industrial energy efficiency a top priority for economic competitiveness. The NW Food Processors Association provides a great example. The group has committed to improving energy productivity by 25% in 10 years and 50% in 20 years. As a result, they are working with state officials to break down existing barriers to pursuing energy efficiency improvements and are accessing federal resources to help with upfront costs. These investments in turn will retain jobs as companies can lower their costs and compete better in the marketplace. State officials should work with the private sector on an “industry by industry” approach that systematically address barriers and provide needed support. This strategy should not overlook the fact that workers often have very effective ideas on how to save energy at worksites and should be consulted to help reduce energy costs.
- **Reduce Transportation Energy Use through Efficient Transportation Choices and Community Design.** When Oregon households spend less on vehicles and fuel, they have more dollars to spend locally and export fewer of those dollars to places that produce oil and vehicles. Oregon has been a leader in promoting such savings through compact community growth, but we can improve on those savings, as well as reduce harmful emissions, by providing more transportation choices and mixed-use development in our communities.

Invest in Transportation and Other Infrastructure

Transportation investments are a great economic stimulus because they have a high jobs multiplier effect and create value for the economy over the long-term. Transportation projects involve skill sets across the entire spectrum of the labor force, from unskilled labor to building trades, professional finance and architects, and numerous suppliers and subcontractors. Most

transportation projects also have a long duration, so the benefits spill over into housing investment, school systems, restaurants and many other associated businesses. These jobs are largely union, well-paid and encourage the building blocks of good community life. The American Association of State Highway and Transportation Officials estimates 35,000 jobs are created for every \$1 billion spent on transportation projects.

Last year the Oregon legislature passed the Jobs and Transportation Act of 2009 which is expected to create 4,000 jobs per year over the next 10 years. This was a good start and this effort needs to be accelerated and expanded. We also need to ensure that we not only invest in our base highway system, but also address light rail, freight, marine and jetties, air and multi-model transportation needs. At the same time, transportation investments need to be preceded by careful planning which anticipates and advances Oregon's environmental and community development objectives, rather than relying on expensive projects to reduce congestion after growth has occurred. Furthermore, we need to build our transportation infrastructure based on the energy, environmental and demographic conditions of the future, not the past. Finally, all transportation and infrastructure investments should be targeted towards projects that provide the most jobs now and the greatest long-term benefits for Oregon's economy.

Oregon should work with its federal delegation to channel more stimulus dollars to infrastructure. Oregon has a major opportunity during re-authorization of the federal highway bill because Representative Peter DeFazio is Chairman of the Subcommittee writing the bill. It is imperative that we work with Congressman DeFazio and other members of Congress for action on this bill in 2010.

The jobs benefits of transportation investments also apply to other infrastructure investments, especially energy and water and wastewater infrastructure. Oregon has a special opportunity to use Federal funds for "smart" power grids to become a leader in this area. Federal funds and funds from utilities are available to expand our transmission grid to get wind energy from the eastern part of the state where it's generated to the west where it's most needed. The key barriers for transmission investments are not dollars, but planning and regulatory hurdles. Some federal officials, including Representative Earl Blumenauer, are working on creating a federal "infrastructure bank" to help finance infrastructure projects. Oregon business and elected leaders should do everything in their power to support these efforts.

Put People to Work in Rural Communities Restoring Forests and Creating Biomass Energy

The growing demand for renewable energy creates immediate and long-term job opportunities in rural Oregon, while at the same time improving the environmental contributions of both federal and private forestlands.

Fifty-eight percent of Oregon's forestlands are federally owned. Due to years of political gridlock, inadequate funding, the absence of a consistent federal forest policy, and lack of coordination between various local, state, tribal and federal government entities, these forests have become overgrown and present a major risk of fire and insect infestation, particularly in Eastern and Southwest Oregon.

This situation offers Oregon a significant opportunity to accomplish three of its long-standing goals: healthy forests, rural jobs and renewable energy. There is agreement among environmentalists,

foresters and local communities that responsible thinning and other restoration activity must be done on our federal forests in order to reduce risk of catastrophic fire and insect infestation.

This active management, by itself, would immediately create in-woods jobs that are much needed in rural Oregon. Furthermore, the by-products of these thinning activities, “woody biomass,” if utilized as renewable energy for electricity and heat, can create many more jobs. In the near-term, jobs can be created through the building and expansion of biomass facilities. These facilities would continue to provide jobs in rural communities for the long-term as well. The generation and use of biomass energy can help protect Oregon jobs for the foreseeable future, as companies seek stable sources of clean energy to comply with increasing state and federal mandates for renewable energy.

There are significant barriers to capitalizing on this opportunity but a committed group of Oregonians is working to address them and has developed recommendations. They need strong leadership from Oregon’s next Governor to break through barriers and move ahead quickly:

- Tap ARRA funds for key projects that are ready to go.
- Implement a coordinated strategy with local government, industry, environmental groups, the Tribes and Federal lawmakers to identify new projects that can be implemented quickly.
- Create strong connections with the Federal government for key changes in policy that are required to take full advantage of this opportunity.
- Ensure that “woody biomass” is included as a renewable resource in state and federal renewable energy incentives and mandates. This will help ensure that there is adequate demand in the marketplace for the byproducts of forest restoration operations.

Biomass energy represents a growth sector for Oregon’s forest products industry, diversifying its longstanding base of lumber and paper products, while adding jobs both immediately and in the long term. Environmental benefits include both federal forest restoration, as discussed above, and the maintenance of private working forests, which now contribute over eighty percent of the state’s annual timber harvest. A robust market for woody biomass energy, combined with other non-traditional incentives such as payments for ecosystem services, would help private forest landowners keep working forests in forest use, and help conserve their contributions to clean air and water, carbon storage, fish and wildlife habitat and recreation, in addition to green energy.

Connect Oregonians to Jobs through Training

Overall unemployment remains high. Reducing unemployment quickly requires a two-pronged approach. First, we need to create a demand for skilled workers who are idle. For example, there are many currently unemployed workers in the building trades that need no additional training and can move immediately to do commercial insulation and other weatherization work. Second, we need to match other workers with training for those occupations that are still in high demand. High demand occupations like healthcare workers, technicians, and welders offer immediate opportunities for return to employment. Newly developing occupations like wind power and other “green” sector technical jobs offer obvious targets for new or redirected training investments and help to attract new economic investment.

The key is to connect Oregonians seeking work to the education and training needed to qualify for available jobs. To fix this problem we must recognize that:

- Many unemployed workers lack the basic skills to qualify for a training program.
- Many more lack the particular skills or certification needed to qualify for the particular jobs that are available.
- Training opportunities exist, but are not always known to those who need them and do not adjust quickly enough to the cycles or changing directions of Oregon's economy.
- Unemployed or underemployed Oregonians cannot always afford the cost of training, are hesitant to ask for help, or don't know where to go for it.

Strong leadership by the Governor can help remove these barriers. Oregon must quickly implement the following management actions to fix the problem of getting people training that is connected to work:

- Quickly identify applicants who already have the foundation skills for these jobs and help get them into appropriate public and private training programs right away. Ask those who provide such programs to link services needed to overcome limited basic skills with the first steps in training programs. Similarly, link each step in education and training programs to the next, in the form of career pathways, ending in certificates that reflect employer-certified skill requirements.
- Assign responsibility to prepare Oregon's "middle skills" jobs to community colleges, apprenticeship programs and other providers in the technical education community. Change state funding for such efforts from a general allocation to an investment approach that can anticipate and adjust to changes in Oregon's high demand and developing middle skills job categories.
- Recognize that this focus on developing jobs categories is also a national priority and aggressively pursue ARRA and other funding opportunities that do not require new state revenues.
- Incorporate the non-profit sector in identifying and initiating the changes in past practices needed to accomplish this shift in the focus and purpose of our education and training efforts.
- Implement new training efforts that compliment, expand, and do not compete with existing programs like labor apprenticeships and other existing training programs.

Aggressive Business Retention and Recruitment Campaign

Oregon has fallen behind other states in the "nuts and bolts" of basic business retention and recruitment. While it has been good to focus on attracting new clean energy businesses, we should not do so at the expense of doing everything we can to retain our existing jobs and businesses and attracting new jobs in more traditional industries throughout Oregon. As one example, Portland almost lost 1,200 high wage jobs at Freightliner, which has been one of the cornerstones of jobs in the transportation sector. This is emblematic of the business closures that we have endured across the breath of Oregon in this recession and we cannot afford to lose our

stalwart regional employers in any part of the state. Oregon's largest private employers, including Intel and Nike, also need stronger support to assure they retain and grow jobs in Oregon rather than investing in other parts of the world.

The Governor can and must provide strong leadership to retain and attract businesses by:

- Meeting with leaders in existing key industry clusters to get their ideas about what Oregon state government can do to ensure that businesses prosper and grow in Oregon.
- Doing everything reasonably possible to retain and attract all high wage jobs in Oregon rather than focusing just on one industry at the expense of other potential good jobs and businesses.
- Ensuring that all parts of state government—not just economic development—recognize that small businesses are the backbone of Main Streets throughout Oregon and adopt policies that encourage rather than impede community entrepreneurs.
- Aggressively recruit foreign businesses to invest in Oregon. This was a very successful strategy in the 1980s and 1990s, when Oregon attracted significant investments from Japan while other states were more fearful of foreign trade. The new Governor has a unique opportunity to attract businesses from China and other Asian countries to invest some of their large currency reserves into foreign direct investment in Oregon. Rather than see China just as a competitor, Oregon has an opportunity to develop a special relationship for Chinese businesses to invest in high-skilled, final manufacturing, assembly, design and marketing in our state to serve the entire US market.
- Foster a business climate that encourages a strong, robust, recession-resistant economy over the long term as described in the following two sections.

Summary

These six specific actions for stimulating job growth will help us create jobs today. There are certainly other immediate job creation strategies that should be considered as well but those listed above have been carefully considered for their potential to quickly create jobs and stimulate economic activity. No matter how successful these efforts are, however, they will not in themselves bring about the economic transition that Oregon needs. For that to happen we must also pursue two long term strategies to create the jobs and stable economy of the future:

- Diversify Oregon's economy with a four-part economic development strategy.
- Create the fundamental conditions for long-term job creation and prosperity.

2. Diversify Oregon's Economy with a 4-Part Economic Development Strategy

To create a strong, internationally competitive and recession-resistant economy we must not only establish Oregon's place in the global economy; we must also strengthen the economic activity within our own borders and stimulate the innovation and research that can establish Oregon as a leader in technology and knowledge-based exports. Since the recession of the early 1980's Oregon has sought to diversify its economy to create a buffer against economic

downturns. As shown below, Oregon has been very successful in diversifying its traded sector industries—those that compete in the international market—but not in creating a buffer against national and international recessions. Traded sector industries will always be at the core of our economic development strategy because they bring new capital into the state. To create a truly recession-resistant economy, however, we also must take steps to amplify the effect of that capital inside Oregon and to keep it circulating within the state. This requires an integrated economic development strategy built around four key elements: (1) Oregon to the World; (2) Oregon to Oregon; (3) Home to Oregon; and (4) Oregon Leads.

Oregon to the World

Here are some specific strategic actions Oregon’s Governor can set into motion to bolster Oregon place in the world and launch the first round of focused Oregon to the World activity:

Retain and attract traded sector businesses.

The central component of Oregon’s economic strategy should be to retain and attract “traded sector” employers—those that sell goods and services outside Oregon. While these employers account for only about 1/3 of our jobs, they have a huge ripple effect on the businesses that sell goods and services inside Oregon. These are local businesses that sell their products and services exclusively or primarily to local customers—hospitals, doctors, banks, retail merchants, utilities, and restaurants—that account for 2/3 of our jobs.

Traded sector companies can be world leaders like Nike or Intel, and companies that sell significant goods and services to other states. In rural areas, a business like a regional distribution center in Hermiston is the “traded sector” for that area because it exports outside the area and brings jobs and dollars into the local economy. The traded sector is the foundation that supports numerous other local businesses in the supply chain and provides the extra resources people need to buy and sell to each other. A strong traded sector is a key to more jobs and higher incomes, so Oregon companies that trade outside the state must be a cornerstone of our economic development strategy.

Continue to build diverse, robust and integrated clusters of companies in industries where Oregon has unique resources, capabilities and talents.

This applies to many sectors of the Oregon economy:

- **Forest and Wood Products:** This has been and will continue to be a cornerstone of Oregon’s rural economy. Oregon needs to continue to move away from the boom/bust cycle of commodity exports by continuing to move toward sustainable forest practices and developing higher value-added products less exposed to market swings.
- **Agriculture and Food Products:** Tillamook Creamery and NORPAC Foods are some of the many examples of businesses that started locally and have expanded to a national presence.
- **Advanced Manufacturing:** Electronic components, biosciences, fabricated metals, machinery and transportation equipment manufacturing represent a big component of traded Oregon products.

- **Aviation and Aerospace:** Oregon has a growing group of business that manufactures or contract aviation and aerospace services.
- **Software:** Oregon will continue to have strong people advantages in growing software business in our tech savvy state.
- **Sports Apparel and Outdoor Gear:** Nike, Columbia Sportswear, Adidas America and other companies throughout the state have made Oregon a center for this industry. The state should promote our existing advantage.
- **Clean Energy and Technology:** Energy efficiency products and services; green building design and services; renewable energy and energy storage; environmental technology and services.
- **Alternative Transportation:** Electric automotive and mass transit vehicles and components.

Seek direct foreign investment in Oregon.

Our state was successful in the 1980s and 90s in attracting Japanese and other foreign companies to invest in Oregon. There is an untapped opportunity to attract significant new foreign direct investment into Oregon because China and other Asian nations need to invest their huge currency reserves. Oregon can offer a unique gateway to America for advanced manufacturing, assembly, design and marketing. The next Governor should lead this effort.

Work with local and state economic development organizations and private industry associations to convene leaders within these industries, identify needs and opportunities for industry growth, and take actions on those opportunities, including:

- Assisting companies in accessing foreign markets. The state can do much more to help smaller companies export to Asian and other world markets. We need better follow up on trade missions and a continuing presence to assist Oregon companies with our key trading partners.
- Meeting workforce needs of the industry.
- Addressing regulatory barriers.
- Assisting companies as they pursue innovation.
- Creating regional solutions centers for the necessary collaboration between federal, state, and local economic development organizations, private enterprise, and other public resources to leverage the combined abilities of these groups.

This represents an evolution in Oregon’s “cluster” strategy included in the Oregon Business Plan. Industries tend to cluster based on proximity to each other, suppliers, talented workers, research institutions, and specialized customers. By consciously connecting the dots within these clusters, we will be able to accelerate our economic growth. Oregon must continue to pursue this strategy, but with a *stronger focus on economic diversification*.

Oregon to Oregon

Oregon needs to emphasize the use of Oregon-based companies to supply other Oregon companies, thus recirculating capital within the state and reducing the loss of capital through imports. Local sourcing and in-state supply chains strengthen Oregon businesses and the Oregon economy. By fostering internal development between companies within the state, Oregon can weave a resilient economic web that provides stability during recessionary periods. Examples of how the next Governor and the state can help develop partnerships between Oregon businesses include:

- **Connectory Database:** The Oregon Business Development Department has partnered with the Pacific Northwest Defense Coalition to create the “Connectory,” an online database of Oregon companies and their capabilities, with the express goal of increasing connections between companies and building out local supply chains for Oregon’s export industries. This work should be expanded and extended to other industry clusters.
- **Wind Energy Supply Chain Initiative:** A group of companies has formed a coalition and is working with the Portland Development Commission and the Oregon Business Development Department to develop a supply-chain of local manufacturers for the wind energy industry. This includes working with existing manufacturers of other products to diversify into the wind industry as well as recruiting new firms to the region. Miles Fiberglass is an example of a successful company that has shifted from a shrinking industry (RV Manufacturing) to a growing industry (Wind Energy). Today, more than 35% of Miles’ revenue comes from its wind energy business, and it is helping to lead this collaborative effort. This effort should be expanded to other clean technology and industry clusters.
- **Wood Products and Green Building Connection:** Oregon is a global leader in two related industries—green buildings and wood products— but little Oregon wood finds its way into certified green buildings. Efforts underway by leaders from both industries and the Oregon Business Development Department need to be supported so each industry gains because of its connections with the other industry.

Home to Oregon

While economic development traditionally focuses on both large and small private companies, Oregon’s households, neighborhoods and communities (the community sector) present a tremendous, under-developed opportunity to spur Oregon’s recovery and to hedge against downturns in the business cycle. The community sector is an overlooked engine of economic activity that connects “economic development” to the real needs of individual Oregonians. The community sector consumes resources to produce Oregon’s social capital and workforce. Buying these resources—energy, goods and services—locally strengthens the local economy and will make it more stable and robust throughout the business cycle.

For example, Oregonians spend \$10 billion each year on energy and 85 percent of that—\$8.5 billion each year—leaves the state. That capital does not contribute to our economy; it does nothing to create jobs in Oregon; it does nothing to help solve our fiscal problems. To put this into perspective, \$8.5 billion is more than Oregon spends each year on K-12, community colleges and higher education combined. Improving the efficiency of our community sector in energy (e.g. community scale weatherization), materials and other factors makes Oregon more sustainable and leaves money

“at home”—money Oregonians can invest in other parts of our economy. The next Governor and the state can help strengthen our community sector in many ways, including:

- **Energy Efficiency:** *(described above in Section A on Immediate Opportunities)*
- **Feed-in tariff (FIT) for Community Renewable Energy Production:** These have radically increased domestic renewable energy production and propelled huge wind and solar industries in Germany, Spain, Denmark and Britain. Through the FIT, homeowners can install solar and wind generators on their property and sell the energy back to the grid at a premium price. A well-designed FIT encourages community buy-in and support, builds the local economy with green-jobs, and provides stable markets that encourage local investment. Oregon’s pilot program for feed-in tariff’s, enacted through House Bill 3039 (2009), will give us additional information to design a FIT that will work across Oregon.
- **Oregon Entrepreneurial Spirit:** Oregon has a long history and deep reservoir of entrepreneurs who are anxious to start or grow their own businesses. It’s a much more productive economic development strategy to encourage home-grown businesses than to try to attract a business already established elsewhere to move to Oregon. The Governor and State need to do everything possible to encourage Oregon’s entrepreneurial spirit and to help small businesses grow. This includes continuing work to simplify compliance with government regulations, support small business development centers, and, especially in today’s economy, work on ways to increase access to capital through the SBA and private lenders (see above).

Oregon Leads

As Oregon pursues this strategy for economic development and diversification, it will be positioned to play a leadership role in addressing key global challenges and exporting its leadership in innovation, creativity and sustainability. The ecosystem services cluster provides a good showcase of these qualities:

- The **Ecosystem Services Council**, an alliance of business, environmental and government leaders in Oregon, have explored establishing “an ecosystem services marketplace, with the goal of promoting clean air, clean water, land protection and habitat restoration through the private sector.” Founders of the council included: Cascadia Region Green Building Council, the city of Portland, Clean Water Services, Defenders of Wildlife, Earth Advantage Inc., Ecotrust, Ecosystem Economics LLC, Institute for Natural Resources, Oregon Business Association, the Oregon Business Development Department, Parametrix, Portland State University, Sustainable Northwest, The Nature Conservancy and Willamette Partnership.
- Oregon SB 513 directs the **Oregon Sustainability Board** to convene a workgroup to prepare a report and policy recommendations for the 2011 legislature. Staff support is to be provided by the Oregon Watershed Enhancement Board. The workgroup will be composed of diverse interests including local, state and federal agencies; Indian tribes; conservation organizations; developers and landowners from the private sector. This group will study and propose over-arching goals to guide the development of

integrated ecosystem service markets in Oregon that are efficient, coordinated, and designed to produce positive ecological and economic outcomes with reasonable administrative costs to all participants.

- Traditional permitting and funding have become barriers to stream restoration, holding back efforts of watershed councils, districts and restoration professionals. **StreamBank** (www.freshwatertrust.org) is an example of an innovative software system designed and built in Oregon and tested in an Oregon solutions effort. It allows users to focus on outcomes rather than process to achieve better, faster and lower cost stream restoration.

Summary

This integrated four-part economic development strategy will clearly establish Oregon's place in the global economy; strengthen the economic activity within our own borders; and stimulate the innovation and research that can establish Oregon as a leader in technology and knowledge-based exports. To provide a solid foundation for the success of this strategy we must also create the fundamental conditions for long-term job creation and prosperity.

3. Create the Fundamental Conditions for Long-Term Job Creation and Prosperity

John Kitzhaber helped launch the Oregon Business Plan in 2002 during the last recession. Before that, Oregon had no comprehensive plan to create jobs and grow its economy. Now, Oregon has a bi-partisan strategic framework developed by Oregon's top business executives, elected officials and community leaders to create a stronger, more competitive and robust Oregon economy. The next Governor must provide the leadership to turn the Oregon Business Plan into a set of specific actions.

The Oregon Business Plan is built around our *traded-sector industries*—businesses that sell their goods and services primarily outside the state, creating jobs and bringing in new dollars that benefit local communities. Furthermore the plan recognizes that the ability of Oregon's traded-sector industries to produce economic prosperity and quality jobs for Oregonians requires investing in our people; protecting our environment and high quality of life; promoting a spirit of innovation; maintaining the availability of important public and private services; and ensuring a stable and adequate revenue source to finance public services. These important components of long term prosperity are referred to in the Business Plan as the "Five Ps"—People, Place, Pioneering Innovation; Productivity; and Public Finance.

- **People: Education and Workforce:** Quality, accessible education is essential for all Oregonians to earn family wage incomes and to have a secure place in our economy. An educated workforce, in turn, is a powerful magnet for knowledge-intensive industries. A quality system of public education can also help communities throughout the state and segments of the Oregon population that have had the greatest difficulty connecting with opportunities in the new economy.

The Oregon Business Plan calls for a "40-40-20" education goal: 40 percent of Oregon adults should have a bachelor's degree or higher; 40 percent should have at least an associate's degree or other technical credential; and the remaining 20 percent should have a high school diploma that represents a high level of academic and work readiness skills.

Achieving this goal will place unprecedented demands on the capacity of our current education system (pre-K through 20) and will require not only a different and more integrated operation of the education enterprise, but also a unified, transparent, student-centered, and performance-based budget framework. In the near future we will be releasing a detailed policy paper on the actions that will be necessary to bring about this transformational change in education and workforce training.

- **Place: Quality of Life:** Oregon is a special place to live, and Oregon's quality of life helps attract and retain talented people who drive our economy. Access to the outdoors and recreation, arts and culture and safe communities are among the many features that can support economic prosperity. Our strategy to transform Oregon's economy must enhance rather than deplete our natural environment and the quality of life that so characterizes our state. Among other steps, we must incorporate progressive land-use policies and easy access to multiple transportation options in our strategy for economic development.
- **Pioneering Innovation:** Much of the recent growth in the Oregon economy has been propelled by knowledge-based industries such as electronics, software, and green technology—and through innovation and new products from all industries. Long term prosperity will depend on our collective capability to continuously learn and adapt in an ever-changing economic world. The infrastructure necessary for knowledge-based growth includes strong private sector research activities, a good entrepreneurial climate, and access to investment capital for new ventures.

Oregon has taken major strides to improve its climate for innovation over the past several years, thanks to the Oregon Innovation Plan and other efforts. The Oregon Innovation Council is a model for collaboration between the university system, state and local governments, private businesses and venture and other capital providers. We must continue this work, but also address additional issues including the creation of added incentives for research and development and increasing the availability of investment capital.

- **Productivity:** The cost and availability of a range of public and private services influences the competitiveness of Oregon businesses in national and international markets. Environmental, health, and community development policies designed to sustain quality of life set our base expectations upon which we will build a healthy productive economy.

To achieve the productivity we need, Oregon must focus on maintaining competitive rates for such crucial services as quality health care and energy. We must insure that business taxes are competitive with those in other states while maintaining equity in our overall tax system. To meet this challenge will require strong leadership from the Governor and willingness on the part of business and labor to work together toward a prosperous and secure economic future.

Among our top priorities must be:

- Restructuring the way health care is organized and delivered in order to improve the health of Oregonians at a lower cost without sacrificing quality. Health care is the single fastest rising cost for businesses, individuals and families. The legislation currently being developed in the U.S. Congress is focused largely on insurance reform which is not the same as health care reform. Oregon must seize the opportunity to develop innovative state programs to deal with the issues left unaddressed by the federal legislation. As a

medical doctor and “father” of the Oregon Health Plan, John Kitzhaber is in a unique position to lead further reform in Oregon that can serve as a national model.

- Addressing energy in a way that keeps rates competitive and meets our goals of greenhouse gas reduction and energy independence. Accelerating energy efficiency across all sectors will be key to this strategy.
- Advancing the coordination between state and local governments to streamline permitting across jurisdictions.
- **Public Finance:** Oregon’s system of public finance and budgeting must provide a much more stable funding base for critical public services and create stronger incentives for economic growth. Our volatile system of public finance was the main reason a recent report by the Pew Center on the States identified Oregon as one of ten states most at risk of plunging into the same kind of financing and budget crisis that has gripped California. To break Oregon’s boom/bust economic cycle and stabilize public revenue we must:
 - Conduct long-term budgeting. Currently Oregon state government operates around a two-year “biennial” budget making it difficult to plan ahead. Oregon must develop and implement a long-term, transparent, performance-based budget built on 8 to 10 year projections of both revenues and expenditures.
 - Reform Oregon’s ballot measure process to ensure that voters are more aware of the long-term budgetary impacts of proposed measures.
 - Address issues of local government financing including inequities created by Measures 5 and 50 and the potential loss of federal timber payments to rural counties with federal forestlands.
 - Reform Oregon’s kicker law. Before money goes back to taxpayers, it should first fill a reserve fund that will protect Oregonians from service cuts or tax increases during recessions. This is the most immediate way to ensure stable funding for education and other programs in the face of cyclical tax revenues.
 - Broaden Oregon’s system of public finance to reduce its narrow dependence on the income tax.

Summary

The Oregon Business Plan offers an excellent roadmap for creating a robust and stable economy in Oregon. We know what needs to be done. Now Oregon needs strong leadership from the Governor to actually implement this strategy. In the past, the annual Business Summit has provided an opportunity to explain the Oregon Business Plan and develop a consensus about Oregon’s future. The Business Summit should be expanded to ensure leaders from labor, workforce development and community advocates are at the table. The next Summit needs to move beyond a “conversation,” and become a public “negotiation” among leaders and a “commitment” by the Governor and legislative leadership to move forward with the specific actions necessary to implement key aspects of the Oregon Business Plan.

Over the next few months, we will be releasing position papers that describe the vision, strategy and specific actions necessary in each of these areas.

Conclusion

A robust economy is the foundation for Oregon's future. The top priority of Oregon's next Governor must be to transform Oregon's economy into one that is strong, resilient, internationally competitive and insulated from the boom/bust cycles that have plagued us in the past. This will necessarily require similar transformational changes in a number of other major systems including education; public finance; health care; energy; and community development.

This transformational change must enhance rather than deplete our natural environment and the quality of life that so characterizes Oregon; and it must reach across urban and rural Oregon, with the goal of increasing the per capita income in each region of our state above the national average.

In the past, economic development has been the responsibility of a single state agency. But the economy is too fundamental to delegate to just one part of Oregon state government. The Governor must lead and coordinate all parts of Oregon towards an economic transformation.

This is the first of a series of policy papers describing John Kitzhaber's vision for Oregon and the practical steps—and difficult decisions—we will have to make to realize it.

Become a part of transforming Oregon:

These position papers are "dynamic" and will develop and expand as the ideas and strategies of Oregonians to help achieve the vision are incorporated.

Please submit any ideas or comments you have to ideas.johnkitzhaber.com

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