SB 1586 The Oregon Investment Act

Senate Finance and Revenue, 2.20.2012 Testimony of Jody Wiser

Tax Fairness Oregon supports the idea of getting all the economic development/loan/investment eggs into one basket and examining where changes should be made to meet current needs. However we do have a few concerns we hope to see addressed during the 2012 session.

We are concerned that the new board membership (Section 3(2)) potentially gives up financial skills for geographic and political distribution thereby possibly weakening the skill set of the board members they replace. Their first tasks will be to bring many current economic development financial programs into one basket, take down silo walls, and address unmet needs. But these new board members will soon be advising on the disposition of several hundred million in public funds. More financial experience even if at the cost of less geographic expertise might be prudent.

The bill doesn't contain language showing how the Oregon Growth Board fits with the Oregon Business Development Commission and the additional boards, councils and commissions associated with Business Oregon and its programs. That relationship needs to be spelled out.

Under sections 20, 23 and 25 an "emerging growth business" is defined as one that will provide "... significant high-skill, high-wage employment." However none of those terms are defined. For example, under several state programs Oregon has only low-wage and high-wage jobs, thus according the term "high-wage" to any jobs paying more than about $33,000 a year. This is not an adequate standard or definition. We recommend "high-wage" (excluding benefits) should mean jobs that pay at least 115% of the average annual wage for the county of employment. "Significant" should also carry some definition. How much should we loan or invest to help generate or sustain a single job? Or 10 jobs vs. 100 jobs? As you will recall, it was only a few years ago that we were investing $1m of public funds per permanent job on wind farms. How do we count temporary construction jobs vs. permanent jobs.

Section 6 says the Oregon Growth Board will not manage or invest its funds directly; rather it "shall contract with one or more management companies to manage and invest" its funds. This does not take into consideration that the portfolio will include loans, loan guarantees and participation loans when more is brought into the basket. These have historically been state-managed, and should remain so. The language needs to be changed to include administration of these programs.

The Section 5 provisions to attract private investment capital into the Oregon Growth Account are worrisome on several counts:

- Investing and lending should be managed without tax expenditures. If the legislature believes the fund needs access to more capital it should budget or sell bonds in the amount needed, and expect equity or repayment, not create a tax break that will generate an unknown amount of capital and thus have an unknown impact on the General Fund, as well as not be amenable to changes in downturns, and provide a flow of income to Business Oregon outside the budget process.
- Section 5 (4) seems to exclude individuals as tax-advantaged investors. It includes only businesses or entities. Is this the intended direction to the Board?
- The mechanism suggested in testimony to attract private capital for Section 5 (9)(b), gives something similar to the State's College Savings accounts advantages to money both entering and exiting the investment. This could prove a <u>very</u> expensive model for the state and an overly lucrative one for private investors.
- What is the extent of the need being addressed and what controls are being put in place? In the prior language (Section 25 (1)(b) is says "there exists an estimated gap of between $100 and $200 million between available venture capital resources and the need of Oregon businesses for such resources." Is this still true? Oregon has just had a banner year with more than $238 million of venture capital invested, without state incentives.
- The proposed legislation has no limits on the amount of tax-advantaged investing/lost revenue being committed to venture capital undertakings. Should a final proposal come to the legislature for this new tax expenditure, it will need limitations.
- Similarly there are no limits on the amount of risk the state will take with loans or loan guarantees, nor is there any mechanism to assess when the state will no longer need to be in the banking business.

Section 5(3) says the Oregon Growth fund will be authorized to undertake various economic development activities, including venture capital investments, as well as "to make, purchase, guarantee or hold grants and loans." While grants have less overhead, can be more targeted, and are often more transparent than tax credits, one still must ask why the state should give grants or forgivable loans to businesses. If we can't expect a loan to be paid back, than it is either a bad investment, or we should be treated like all other investors and get equity in return for the assets we provide. The state should not simply give taxpayer money to businesses.