

2025-27 Budget Review

Oregon Business Development Department

	2021-23 Actual	2023-25 Legislatively Approved *	2025-27 Current Service Level	2025-27 Governor's Budget
General Fund	445,946,186	318,799,824	117,196,666	212,438,501
Lottery Funds	133,568,697	177,780,001	161,488,203	200,236,708
Other Funds	260,257,066	1,253,787,180	425,422,980	1,125,288,509
Other Funds (NL)	130,263,514	381,225,321	376,439,773	447,219,352
Federal Funds	49,801,034	141,262,092	70,687,471	94,273,416
Total Funds	1,019,836,497	2,272,854,418	1,151,235,093	2,079,456,486
Positions	184	211	187	204
FTE	167.11	190.86	183.88	205.19

* Includes legislative and administrative actions through December 2024.

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 implementing the state's economic development strategy. The agency provides economic and community development and cultural enhancements throughout the state, and administers infrastructure and innovation programs that aid businesses and communities. Policy oversight and guidance is provided 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 the following budgeted program areas:

- Business, Innovation, and Trade** - supports economic strategies and policy development, as well as support services, grants, and loans to assist businesses with job retention and creation, trade promotion, and innovation. Lottery funded programs within the division 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 is primarily financed with Lottery Funds, and includes 34% of the

agency's overall staff. Other Funds generated from loan principal and interest repayments, investment earnings, and loan and service fees support business loan and loan guarantee programs.

- **Infrastructure Financing (Infrastructure)** - provides grants and loans to assist communities with infrastructure development projects. General obligation bond proceeds and lottery bond proceeds capitalize various loan and grant funds which are supplemented by fees, interest, principal repayments, and investment earnings. Federal funds are received for the Community Development Block Grant and Brownfield programs. Funding supports project financing and staffing. Overall this program area comprises 58% of the agency's current service level budget, and 28% of the Department's staff.
- **Oregon Arts Commission and Oregon Cultural Trust (Arts)** - the Arts Commission is responsible for activities including evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding to Oregon arts programs; providing services and grants to organizations, individual artists, and communities; and managing Oregon's Percent for Art program. The Oregon Cultural Trust supports arts as well as heritage and humanities in the state, including historical and heritage museums and societies, libraries, academic and literacy initiatives, historic preservation, and community events. The Cultural Trust also administers the Oregon Cultural Trust tax credit, which awards grants to non-profit arts and cultural organizations throughout the state. General Fund supports the Arts Commission operations and programs and provides required match for federal NEA funds. Other funds supporting the program area include donations to the Cultural Trust, revenue from the Percent for Art Program, and Federal Funds from the National Endowment for the Arts. The program accounts for 1.5% of OBDD's current service level expenditures, and 5% of the agency's employees.
- **Oregon Film and Video Office (Film and Video)** - this is a semi-independent agency that receives Lottery Funds, passed through from OBDD, to promote and support the film, video, and multimedia industries in Oregon. As a semi-independent agency, Film and Video is not part of the Department's budget or position authority, and only the pass-through funding, which amounts to 1.3% of the current service level, is included in OBDD's budget.
- **Operations** - provides all central administrative services including the Director's office; communications and research; employee services; fiscal and budget services; information technology; policy, audits, and contracts; and modernization and internal business support. The costs associated with the division are primarily staffing-related, and supported primarily by Lottery Funds. Other Funds revenues, which are generated from infrastructure and business finance programs, and federal grant administration funds also support a portion of the budget. Expenditures in this program area amount to 2.1% of current service level expenditures and 33% of agency staffing.
- **Lottery and General Obligation Bond Debt Service** - this includes 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 interest earnings and excess proceeds are sometimes applied as Other Funds to pay debt service. Debt service expenditures make up 15.4% of OBDD's current service level budget and no personnel costs are budgeted in this program.

BUDGET ENVIRONMENT

The high cost of capital projects is driving demand for economic assistance and low-cost financing at OBDD. Both aging infrastructure requiring repair, upgrades or replacement, and additional capacity needed for housing production and industry-specific needs, such as data centers or chip manufacturers, has prompted requests for additional funding and faster rates of recapitalization of various funds than in the past. The Governor's budget includes the recapitalization of various funds, detailed below.

The 2025-27 biennium marks the beginning of a new 20-year dredging cycle for the Lower Columbia River, an important shipping and navigation channel for the entire Pacific Northwest. Costs for dredging are divided between the Army Corps of Engineers and the states of Oregon and Washington, with Oregon's share assumed to be at least \$70 million. Historically, Oregon's share of project costs has been approved in increments over the course of the dredging cycle.

In April 2024, the Port of Portland announced that it planned to shut down container service at Terminal 6 (T6), the state's only public container shipping facility. The Port has been operating T6 at a loss for several biennia, but this is not sustainable with upcoming commitments related to dredging and Superfund Site responsibilities. With low container volumes that cannot offset operating costs, and necessary facility upgrades and maintenance, the ability to maintain a private operator has been difficult. The Governor issued a statement in support of state investments, including \$5 million for T6 operations, \$20 million in capital investments, and another \$15 million for the first phase of Lower Columbia River dredging. In December 2024, the Port tentatively secured a contracted operator pending these assumed investments. Investments in dredging and T6 infrastructure are included in the Governor's budget.

OBDD has become the grant administrator for multiple projects for local governments, businesses, and not-for-profit entities. OBDD reimburses these entities for costs in increments, upon demonstration of specific planning or execution milestones. This requires intensive project management, procurement, and accounting resources, increasing workload for the agency in the Operations, Business Innovation and Trade, and Infrastructure divisions.

OBDD is in negotiations with a vendor to modernize its suite of aging, unconnected, and unsupported financial and grant management systems. This Economic Development Management System has an initial project cost estimate of \$20.2 million, which would be funded through a combination of Lottery Funds and Other Funds. The Department received responses from its request for proposals after budget development, so additional resources for project planning, information systems support, and change management will have to be considered to maintain project momentum into the 2025-27 biennium.

CURRENT SERVICE LEVEL

The 2025-27 current service level for OBDD of \$1.2 billion total funds is \$1.1 billion, or 49.3%, less than the 2023-25 legislatively approved budget, largely due to the phase-out of one-time investments made during the 2023 and 2024 legislative sessions.

Phased out expenditures consist of various projects and initiatives, most of which are outlined below. However, many of these investments will need either reappropriations or expenditure limitation carried

forward in 2025-27 to complete contractual obligations, which will be included in the Legislative Fiscal Office's 2025-27 budget recommendation.

Operations

- Economic Development Management System project and professional services costs approved during the 2023-25 biennium: \$1.5 million Lottery Funds, \$300,110 Other Funds

Business, Innovation, and Trade

- Oregon CHIPS Fund (SB 4, 2023 and SB 5701, 2024): \$50 million General Fund, \$239 million Other Funds
- State Small Business Credit Initiative: \$43.9 million Federal Funds
- University Innovation Research Fund: \$10 million General Fund, \$13 million Other Funds
- Economic Equity Investment Fund: \$8 million General Fund, \$16.9 million Other Funds
- Limitation for projects carried forward from the 2021-23 biennium, primarily the Strategic Reserve Fund: \$8.5 million Lottery Funds
- Technical assistance to underrepresented businesses: \$4.8 million Lottery Funds
- Small Business Development Centers (HB 3410, 2023): \$3 million Lottery Funds
- County fair grant program (HB 3410, 2023): \$3 million Lottery Funds
- Emerging Opportunities Fund: \$2.3 million General Fund
- Wildfire Recovery: \$1.5 million General Fund

Infrastructure

- American Rescue Plan Act (ARPA) State Fiscal Recovery Funds for infrastructure projects approved in 2021-23: \$267.6 million Other Funds
- Seismic rehabilitation grants and bond costs of issuance: \$151.4 million Other Funds (Article XI-M and XI-N general obligation bonds)
- Infrastructure projects to named municipalities to support housing development (SB 1530, 2024 and HB 4134, 2024): \$95.9 million General Fund
- Infrastructure projects to support economic development and associated costs of issuance (SB 5506, 2023): \$48.9 million Other Funds (lottery bonds)
- Child Care Infrastructure (HB 3005, 2023): \$25 million Other Funds (lottery bonds)
- Oregon Industrial Site Readiness Program: \$20 million Other Funds
- Projects carried forward from 2021-23 biennium: \$15.6 million General Fund
- Grants to local governments for named infrastructure projects (SB 5506, 2023): \$15.1 million Lottery Funds
- Opal Creek Wilderness economic development projects: \$14.7 million Federal Funds
- City of Salem drinking water system project: \$12.8 million Other Funds
- Industrial Land Loan Fund (SB 4, 2023): \$10 million Other Funds
- Levee Project Grant Fund: \$7.5 million Other Funds
- County Fair Capital Improvement Grants: \$4 million Other Funds

- Aquifer Recharge Testing Forgivable Loan Program (HB 2010, 2023): \$3.3 million General Fund, \$3 million Other Funds
- Housing Infrastructure Support Fund (SB 1537, 2024): \$3 million General Fund, \$1 million Other Funds
- CHIPS Child Care Fund (HB 4098, 2024): \$2.5 million General Fund, \$1.9 million Other Funds
- Tide gates, culverts, and drainage: \$2.1 million Other Funds
- City of Willamina erosion remediation project: \$1.7 million General Fund
- Port Orford cannery improvement project: \$1.6 million Lottery Funds
- Brownfields revitalization and cleanup: \$1.5 million Other Funds, \$1 million Federal Funds

Arts

- Grants to arts and cultural organizations (SB 5506, 2023 and SB 5701, 2024): \$18.4 million General Fund
- Limitation for capital projects carried forward from in the 2021-23 biennium: \$9.1 million Other Funds
- Native Arts and Cultures Foundation: \$3,000,000 Other Funds (lottery bonds)

GOVERNOR'S BUDGET SUMMARY

The 2025-27 Governor's budget is \$2.1 billion total funds, a \$193.4 million, or 8.5%, decrease from the 2023-25 legislatively approved budget, and a \$928.2 million, or 80.6%, increase from the 2025-27 current service level. The Governor's budget includes a number investments for port improvements, recapitalization of existing infrastructure loan and grant funds, and special initiatives financed through the issuance of bonds.

Port Improvements include \$15 million in lottery bond proceeds for Package 101, to meet Oregon's matching requirements associated with dredging activities in the lower Columbia River system. Additional investments will be required in future biennia, as the dredging plan is expected to be at least \$70 million over 20-years. Another \$20 million in lottery bond proceeds is proposed in Package 102 to fund the Port Capital Improvement Program, for improvements to port facilities with active container shipping services. Both of these investments are associated with the Port of Portland's efforts to secure a private operator for T6. Package 119 proposes \$10 million in lottery bond proceeds to recapitalize the Port Revolving Loan Fund for port design and capital improvements, available to any port by application.

Bonding is also proposed for recapitalization of the following infrastructure loan and grant programs:

- Pkg. 115 - \$50 million in lottery bond proceeds for the Special Public Works Fund, which provides loans and grants to communities to build or rebuild essential public infrastructure; \$30 million in lottery bonds were approved for the program in 2023-25.
- Pkg. 116 - \$10 million in lottery bond proceeds for the Special Public Works Fund - Levee Subaccount to continue grants to communities for flood control projects; \$10 million in lottery bonds were approved for levee project grants in 2023-25.
- Pkg. 117 - \$150 million in Article XI-M and XI-N general obligation bond proceeds for the Seismic Rehabilitation Grant Fund, which supports earthquake readiness for schools and emergency

buildings; associated debt service in the 2025-27 biennium is \$6.6 million General Funds. This proposed investment matches the amount approved in the 2023-25 biennium.

- Pkg. 118 - \$10 million in lottery bond proceeds for a new Industrial Site Loan Fund, supporting new and existing development of industrial lands for economic development-related activity.
- Pkg. 122 - \$30 million in lottery bond proceeds for the Child Care Infrastructure Fund and a permanent administrative position to administer the funding. The \$50 million in lottery bonds that were approved for the program in the 2023-25 biennium has been fully subscribed.
- Pkg. 501 - \$10 million in lottery bond proceeds for the Brownfields Redevelopment Fund.
- Pkg. 502 - \$5 million for the Brownfields Property Revitalization Fund; \$5 million General Fund appropriation for the program was approved in the 2021-23 legislatively approved budget.

The Governor proposes issuing lottery bonds for several targeted initiatives, including:

- \$20 million to maintain a 27-mile levee system along the Columbia River from Sauvie Island to the Sandy River.
- \$10 million for county fairgrounds infrastructure and operations; a 233.3% increase over the one-time investment of \$3 million approved during the 2023-25 biennium.
- \$100 million to capitalize a new Housing Infrastructure Project Fund for grants to municipalities for infrastructure projects that support housing at specified densities and affordability levels. An associated investment of \$5.2 million Lottery Funds supports debt service and the cost of six positions (4.90 FTE) to administer this new program.

The Governor's budget accommodates the addition of new programs and contracts over the past several biennia by adding \$1.8 million Lottery Funds, \$721,717 Other Funds, and a total of 7.41 FTE to support central service functions, strategic plan investments, and staffing for the Child Care Infrastructure and EEIP programs. Should additional operations staffing be approved, a corresponding number of positions will need to be added to approved FTE to correct an oversight in the Governor's budget. Continued development of the agency's Economic Development Management System modernization project is proposed to be supported with \$2.5 million Lottery Funds and \$2.5 million Other Funds expenditure limitation.

Additional proposed Lottery Funds investments to support businesses include:

- \$4.8 million Lottery Funds and one position (1.00 FTE) for technical assistance to underrepresented businesses, an amount consistent with legislatively approved investments for the program in the 2023-25 biennium;
- \$1 million Lottery Funds for a Marine Navigation Improvement Fund;
- \$1 million Lottery Funds for the Small Business Sustainability Fund, which is currently funded with Strategic Reserve Funds; and
- \$400,000 Lottery Funds to expand international trade.

A place holder for Other Funds and Federal Funds expenditure limitation is established for the Oregon Broadband Office in anticipation of finalizing amounts needed for grants in the 2025-27 biennium.

The Governor's budget includes two reductions, \$2.1 million Lottery Funds to the Oregon Metals Initiative, and \$1.3 million Lottery Funds to the Oregon Manufacturing Innovation Center. Overall, the Governor's budget includes \$2.1 million of General Fund, \$21.2 million of Lottery Funds, \$322.5 million

Other Funds, and \$22.5 million Federal Funds to accommodate unexpended project costs by carrying over spending authority for previously approved projects into the 2025-27 biennium.

KEY PERFORMANCE MEASURES

A copy of the OBDD Annual Performance Progress Report can be found on the LFO website:

https://www.oregonlegislature.gov/lfo/APPR/APPR_OBDD_2024-10-02.pdf

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