

**OREGON COUNCIL FOR KNOWLEDGE & ECONOMIC DEVELOPMENT
OATC CENTER, CLACKAMAS COMMUNITY COLLEGE
29353 TOWN CENTER LOOP EAST
ROOMS 112-113
WILSONVILLE, OREGON
MAY 14, 2004
1:00 PM-4:00 PM**

Minutes

Members Present:	Adrian Roberts
Allen Alley	Jim Craven
Scott Gibson	Mike Salsgiver
Sam Angelos	Bruce Schafer
Carl Talton	Diane Vines
Randall Edwards	Kirby Dyess
Keith Larson	Tom Hartung
Ryan Deckert	Joe Johnson
Frost Lee (phone)	
Dwight Sangrey (phone)	Staff:
	Pat Scruggs
Technical Advisors:	Chris Bright
Gordon Hoffman	Jack Isselman
Bill Newman	Connie Green
Duncan Wyse	Todd Jones

Meeting was called to order at 1:15 by Chair Allen Alley. Roll was called and initially a quorum was not established. Chair Alley asked for presentations that did not require a voting majority of the Council to begin while they waited for other members to arrive. He postponed the approval of the minutes and asked for introductions around the table. Chair Alley then moved on to opening remarks concerning his company's recent outreach to China, highlighting the need for Oregon to have a global perspective in regards to economic development. He also noted that the recent International Science and Engineering Fair hosted in Oregon was an excellent example of having good global perspective, and praised the coordinators of the Fair and the quality of the attendees. All of this points to the great potential Oregon has to be technologically successful on a global scale. Extended thanks to Joe Johnson President of CCC, for hosting facilities.

Organization Updates:

Chair Alley then asked for an update from Neil Bryant, consultant for the State Board of Higher Education to give an update on the reorganization of the Board, OUS, and its plans for economic development. Governor Kulongoski had agreed to serve as board president in the wake of Neil Goldschmidt's resignation, reinforcing his earlier commitment to prioritize higher education. Currently the Board was divided into four different working groups; Chancellor's Office Reorganization, Excellence in Delivery and Productivity, Access and Affordability, and Academic Excellence and Economic Development. The latter committee was chaired by Kirby Dyess, was focused on the quality of higher education and its overlap with economic and job growth, and complimented OCKED's workplan and legislative concepts. At this point, the working group had six placeholder legislative concepts that would be developed further during the next month. Finally, he added the confusion sometimes felt in the Legislature by Higher Ed. and OCKED/ETIC all presenting similar legislative proposals, it was important to tie all efforts together for the sake of clarity and consistent message for everyone.

Chair Alley thanked Mr. Bryant, and added that he resonated with the last comment of consistent message, It was important to act as a counsel, be a body the Governor and Legislature could look for advice. Kirby Dyess added that this was the Governor's agenda and higher education was his number one priority, as

evidenced by Governor's participation. A lot of dynamic people who feel strongly that higher education is the engine of economic development, coming from diverse constituencies. Pat Scruggs added that there was a packet of legislative concepts from the State Board of Higher Education provided to all members, and noted that there were many points of synergy between these concepts and OCKED's own. Streamlining issues and economic development, need to continue to work together with working groups and whole board in moving things with that. She asked Mr. Bryant and Ms. Dyess about how OCKED could better serve them. To develop those in tandem a great idea. Connie Green added that Dept of Ed. had taken same policy concepts, approved same concepts so they could go in together on a k-16 system, conversation with the whole system to support this.

Chair Alley asked for other comments. Sen. Hartung cautioned that there were limited resources and input was needed from the board to determine priorities, scholarships, where is the money coming from. A major goal in OCKED is to help Board and Legislature develop priorities. Affects quality of life, education does more than anything. Chair Alley added that in the wake of industry's outsourcing of jobs, it was necessary to get clear messaging on the importance of higher education. Ms. Dyess responded that with the editorial meetings the Board was organizing, they were facing a similar challenge. Many people in the press did not connect the global outsourcing to educational levels in different countries, only the lower cost of labor, which was a simplistic assessment. She offered to send OCKED talking points used by board members for these meetings. She also recommended addressing the placement of high tech workers in traditional and low-tech industries, and the misperception that existed. Incredible demand for graduates but the public hasn't discovered that yet. Not going into high tech sector, but other industries.

Oregon Business Plan

Ms. Scruggs gave a quick update on the Oregon Business Plan and their plans for their annual summit in December. OCKED's priorities made up one quadrant of the Plan's overall recommendations. The Business Council was also concerned with the importance of clear messages to the public and interested parties. Preparing how these strategies align already now in May, get prepared ahead of time so the fall can be used to push issues for the next session as well as non-legislative activities.

ETIC Update.

Chair Alley asked Bruce Schafer to give an update on the Engineering Technology and Industry Council's activities. ETIC had been working hard with the Board of Higher Education on their new priorities and initiatives in the working groups, scholarships, access, Working with both Higher ed and community colleges in pre-engineering curriculum, economic development. Engineers don't just go to high tech they help build infrastructure, and so ETIC was trying to reach out to other industries across the state to help realize that fact, as all industries depend on technology to be competitive. Recommitted to strategy of excellence, enhancing rankings of programs and doubling graduates, and working on beefing up areas of specialization to align with OCKED's identified priorities. He presented a summary of their recommendations that would be presented at the State Board of Higher Education meeting in June, with hopes they would be approved by the Board. ETIC would not be supporting its own legislative initiatives, but would stand to support both OUS placeholders and OCKED recommendations.

Chair Alley asked for comments. Sen. Deckert emphasized the importance of repetition and reinforcing previous messages and goals from the last session. Mr. Schafer responded that this was still their core strategy. Chair Alley agreed with Senator Deckert, noting the parallels with ONAMI. Mr. Gibson noted that since ETIC was helpful in directing biomedical research dollars, and the only biomedical engineering program, to OGI even though it wasn't a part of OUS, if this was still the case. Mr. Schafer indicated that it was and that ETIC would continue to do this.

Chair Alley asked for other updates. Jim Craven gave an update for AeA and encouraged the Council to work on framing the issue of globalization and stemming the tide of some legislation and encouraging helpful legislation. Looking at the 2005 session as a lot of possible defense, but OCKED could push good legislation. Mr. Schafer added that it was important for all groups to cross-endorse messages. Skip Rung provided a quick update on ONAMI. On May 28th the facility would be opening at Hewlett-Packard,

ONAMI affiliated researcher have been getting a lot of grants, advisory board has met once. Looking at North Carolina model as a means to structure center and administration. Chair Alley noted that he was at the board meeting earlier, pleased with the level of engagement and discussion, great board discussed. Mike Salsgiver gave a brief update from the OBA, shortly hearing an announcement about Portland Business Association President. In the meantime, Alliance was developing its 2005 agenda and legislative items; hopefully k-12 funding, higher ed investment and R&D, building of infrastructure for communications, Oregon has a long way to go, working with all levels of government to be competitiveness.

OCKED Legislative Concepts

Chair Alley then moved the meeting to a review of the Council's legislative concepts in development. Jack Isselman from OECDD began by explaining possible revisions to Council structure and staffing. He noted the Governor wanted to approach a very focused agenda on higher education and its relationship to Oregon's economy. OCKED would play a central role with this. A possible issue was the sunset of the Council in 2006. The Governor wished for a successor council to be crafted following this sunset. Currently, a placeholder had been submitted as a concept by multiple parties. OECDD wished to commit funds to create a staff position to support OCKED and its various initiatives such as workforce information technology project. That staff position had been filled by current OCKED facilitator Pat Scruggs which would ensure a smooth transition. Mr. Isselman then moved on to discuss her role in the OCKED restructure. The new entity would replace OCKED and other boards and commission focused on the new economy, and would have the authority to make policy recommendations to the Governor and Legislature and develop a statewide innovation plan. Her position would begin July 1, 2004.

Chair Alley asked for comments. Senator Tom Hartung asked if this had anything to do with OECDD's restructuring of the international trade division. Mr. Isselman noted that there were cross-currents, but that none of the legislative concepts in mind would have an impact on that restructuring. Senator Hartung cautioned that there were horrendous markets in China and Asia for agricultural products. He thought that OCKED had not done enough to promote the natural resource base in Oregon. Mr. Isselman noted that the Governor had also attempted to restructure the International Trade Commission and that they would have a new strategy. Chair Alley agreed, and noted that it was important to see competing markets as new opportunities, not threats. Ms. Dyess added that in her committee's campus visits the opportunity area of China had emerged as a possible thing to develop. Already strengths in higher ed. institutions that could be built on and geographically Oregon was in the right place. Ms. Scruggs responded that one of the Council's committee recommendations was an international business forum with involvement of business schools involving China. Adrian Roberts pointed out that the natural resource economy needed to transition from commodity basis to a value-added basis, and to direct attention to how technology can add value, e.g. making vaccines from plants. Many opportunities exist here. In Portland, there was the US/China Sustainability Institute, a great place to begin for great plans. More assets than can be taken advantage of, but poor coordination. Everyone wants to start something new and no one wants to join anything. Build around interest in China and the interest China has in us, and we could build an unique relationship. Chair Alley asked how it would be possible to link the US/China organization into OCKED efforts. Mr. Isselman noted that a big part of their industry sector was sustainability, and there was a possibility they would send their representative to China soon.

Chair Alley then moved on to the report from the Commercialized Research Committee. Pat Scruggs gave a report on behalf of committee chair Jim Johnson. Priorities for the committee included formalizing ONAMI and providing the \$10 million in operating funds budgeted in the last piece of legislation. Treasurer Edwards asked if this was a start-up cost or biennial. Skip Rung responded that this was start-up operating cost, but that the state could expect at least some ongoing investment if ONAMI wished to pattern itself after other successful signature research models. Treasurer Edwards responded that when the state was looking at OHSU's Oregon Opportunity, the state preferred to look at it as an investment with a possible return through bonding, and wondering if long-term what the state would get in terms of the research the Institute would present. Mr. Rung noted that a mechanism for this already existed with university technology transfer offices, noting that some of these in other states were self-sufficient. The Treasurer encouraged ONAMI to continue to find ways of being self-sustaining. Ms. Scruggs added that

the investment of state dollars was extremely important when looking at leveraging federal grants. Chair Alley asked if a model had been created with the Oregon Opportunity. Treasurer Edwards said this was the case. Senator Deckert noted that making the case for operating funds would always be harder than capital funds, because operating budgets were perceived as not self-sustaining. He thought \$10 million seemed reasonable, and hoped the Treasurer's Office would continue to advocate on their behalf for the state. Adrian Roberts recommended seeking possible models from both North Carolina and Washington. Takes off.

Ms. Scruggs then continued with the second recommendation, streamlining technology transfer agreements, noting that OUS also had a placeholder proposal to streamline contracts in general. This concept had been agreed upon by all major universities, exempting OUS from legal sufficiency review at DOJ and from required provisions of state procurement contracts to increase efficiency and cut down time. It would also allow OUS authority to hire attorneys to provide general or specialized legal services. Improves efficiency and effectiveness. Review by all universities together as things that inhibit timeline and efficiency of offices the most. Chair Alley asked for comments. Bill Hostetler agreed saying that the biggest issue was the research contracts being put together with industry, and DOJ review could slow the process down by weeks. The original provision was made for procurement contracts, which most research contracts are not. Universities have the staff to do this without DOJ review. When DOJ reviews licensing contracts the process goes much more smoothly. Ability to hire contracts on specialized issues, with any major problems you need to go through DOJ, and they don't have the expertise, they gave permission to hire a law firm, but it took too long to get permission through DOJ. Going this route I don't know, but it's important to TT effort. Randall Edwards noted that DOJ would be very sensitive to this, and wondered about execution. Perhaps the Board of Higher Education could help advance this. Treasury works on technical contracts with DOJ and has had challenges, but they've been pretty responsive if you need something. Tread lightly, by law they are state contract and you have to work within that. One possibility was encouraging DOJ to hire someone who was up to speed on issues. Chair Alley asked if this was something the Board of Higher Education was looking into. Ms. Dyess noted her committee was working on this, and noted that there was a great disparity between campuses; some had no problems and with others a relationship had not been established. Treasurer Edwards asked if perhaps it was possible to take this recommendation off the table and support the Board's efforts in this initiative. Senator Deckert noted that this might be a prime candidate for working out before legislation. Gordon Hoffman added that the internal management directives for OUS needed to be reviewed. Chair Alley concluded that OCKED would support the Higher Ed. Board's work with this, and asked Scott Gibson to give an update from the Business & Capital Formation Committee.

Mr. Gibson began with the three major recommendations. First thanking Harvey Matthews Treasurer and committee for the passage of \$100 million investment set of venture capital funds to invest in life sciences etc. Committee wants to stay consistent so will work with Treasurer's Office and Credit Suisse to attract venture capitalists. Second, since this will not address pre-venture stages of research taking place at universities, committee proposes measures. The idealistic recommendation comes in the form of building a top-tier business school, aligning great research with great marketing to make great things happen. Committee will continue to think about getting resources to business school activity. Finally an initiative to capitalize on international markets, not as fleshed out, but still important to keep as a priority. He then asked Bill Newman to explain the commercialized research fund recommendation. Mr. Newman noted that this would be a replacement for the Higher Education Technology Transfer fund, emphasizing the pull of industry initiative to use universities to come up with solutions to industry problems. The fund would focus on technology development and assistance in making a product commercially feasible. Only available to small qualified Oregon businesses. Project would have to be a collaborative project between company and research institution, and would be phased in depending on completion of milestones. There would have to be a completed business plan in order to target to companies that had good commercial potential. Cash would be matched by private sector to ensure commercial viability. Would have to match a portion of the funds. Institutions would agree to waive indirect costs on the projects. If companies leave state after project is completed, there would be a repayment option. Culled from best practices around the country, Washington and Maryland had best ideas, and Pennsylvania Ben Franklin program, thank to Pat Scruggs and others. Jim Craven asked what the difference between this idea and Northwest Technology Ventures would be. Mr. Newman responded that this program would include money for proof of concept, access of

facilities, anything pre-VC or pre-seed, anything that a venture capital firm couldn't consider. These were grants that allowed companies to access research institutions in the state for facilities they wouldn't have in house. Ms. Scruggs noted that the qualifications and probability of success were much more stringent than as directed under the HETT Fund. Mr. Hostetler compared it to regional efforts in Linn-Benton County. Mr. Newman's final comment was that the HETT Fund Board had been approached and they were supportive of the restructure. Mr. Gibson then asked Keith Larson to discuss the next recommendation, the Investment Tax Credit Concept. He demonstrated the virtuous growth circle, where companies find incentive to invest in Oregon companies, which will ultimately increase the reinvestment and reduce the risk of capital flight. The recommendation called for establishment of a 20% nonrefundable investment credit for direct investment in Oregon businesses and a 25% credit for investment in a qualified state-supported VC fund. The target is for bolstering angel capital in under-supported industries like the biosciences and would apply to individual investors and partnerships and would have a yearly or total investment cap, as exists in North Carolina. The credit would have a carry forward provision if not used in one fiscal year. Ms. Scruggs added that that North Carolina initiative had been around for a decade, and received tremendous support, investing in 120 new businesses and tracked job growth. This hard data was very favorable. Longest standing model with data. Mr. Larson continued, noting that they wanted to create a self-funding program ultimately. Chair Alley asked how the Oregon proposal differed from North Carolina. Ms. Scruggs said the only variables would be what the state used as a cap, and what qualified as an eligible business. North Carolina restricted traded-sector industries, such as personal services and construction. The model overall was consistent.

Chair Alley noted that when it was presented to him initially, it was hard to process, so simplifying the message was important, followed by the precedent set by other states and the data that emerged from those states. Mr. Larson agreed, and noted that positioning was important. Ms. Scruggs noted that there would be an application process and a fee to compensate the state for administrative costs. Other programs had oversight from their Secretary of State and other agencies. Mr. Larson continued with the second part of the program. Following a successful investment, the program would establish a capital gains credit from the sale if reinvested in a qualified Oregon business within a year and held for a specific period of time. Chair Alley asked if this was also a part of other states' programs. Mr. Larson responded that California gave a whole exemption to small businesses. Mr. Gibson added that the Oregon Legislature had already passed similar legislation that wasn't as effective. Treasurer Edwards noted that the concept was a good fit for the Council's mission, but it also involved restructuring the tax code and needed to be put in the context of the whole state tax system. He urged caution as the Council sought to find a good place for it within their recommendations. Ms. Scruggs asked the representatives of industry associations if this was something that they would be behind. Duncan Wyse responded that restructuring the tax code was a plank of his Oregon Business Plan and it was possible to structure within. Mr. Craven added that revenue projections were what drove changes and proposals in the Legislature. Mr. Larson responded that there was the ability to adjust the rate to a point where it was feasible with the first part of the plan, but not so much with the second. Ms. Dyess wondered about an umbrella concept for all the recommendations to help others visualize them better. Mr. Newman responded that on the financing side, Oregon had a lot of resources, but this package of bills was really for technology transfer from universities to the private sector. Ms. Dyess then commented that her fear was that in the life sciences the lack of knowledge base in the biomedical arena would keep this from getting off the ground, with companies continuing to move to where the big out of state VC's were. Ms. Scruggs commented that within the state there was a dearth of angel funding, especially outside the metro area and also across industry. Hopefully this plan would solve both of these shortfalls.

Chair Alley moved on to an update from the Workforce Committee. Connie Green from the Department of Community Colleges and Workforce Development noted that many of the committee's recommendations involved support of concepts put forth by the Board of Higher Education and the Governor. They included: establishment of dual enrollment and full transferability between community colleges and universities, expansion of on-line courses and nontraditional delivery methods to increase access to professional development and degree programs, continuing the Employer Workforce Training Fund for incumbent workers, emphasizing knowledge-based workers, and supporting the already existing goals of high quality engineer and computer science programs. The committee was not yet certain whether actual legislative concepts would be necessary. She noted that the training fund was contingent on finding matching funds.

She added that the Department was working on a number of other projects with the federal money they had recently received, including ESL programs and OCKED roadmap being converted into a portal. In terms of legislative concepts, the committee was more concerned with an alignment of messages with the Council. Jack Isselman added the workforce training fund was one of the most critical tools the state had to help expand businesses, more utilitarian than property tax credits. Ms. Scruggs added that it made more sense to support what was being done by other groups than to initiate something new. Senator Deckert asked about the one big idea that could be taken from the workforce committees. Ms. Isselman said that it was important to get a state fund, since current activities were being funded by federal dollars that were tightly restricted. Ms. Green noted that if there was one thing that would take a resource, it was the fund. In terms of message, it was getting students moving through the pipeline more quickly and aligning the systems. Ms. Scruggs clarified that if they could get legislation to develop a state workforce fund, OCKED should get behind it, but should not attempt to propose its own legislation. Mr. Larson asked if the Council was doing enough to publicize the success of the workforce training fund, and if there was anything to follow up on regarding globalization and international markets and that impact of the state's workforce. Ms. Green noted she had taken notes about that, since international markets was not something she dealt with, but she would take it back to her colleagues who did. Ms. Scruggs noted that these issues were more activity-based than requiring legislation. Chair Alley added that it was important to document successes and that the great work of ONAMI, the success of 3613, and training fund, needed talking points. Mr. Angelos wanted to know about quantifiable measurements of success. This would make it easier for Council members and representatives to present ideas to the Legislature and catalyze faster action from the Council members who served in the Legislature. Mr. Isselman noted that these metrics did exist, and made a note that he would get them to Ms. Scruggs. Chair Alley noted that with ONAMI, the negotiation process made the initial benchmarks less valid.

Next Steps and Coordination of Activities

Ms. Scruggs reminded the group that in addition to metrics and messaging, it was important to get revenue impacts so that they could be developed in late summer to early fall. This required the Council to prioritize and accept these concepts at this point. She quickly reviewed the recommendations on the table, and asked for Council approval. Chair Alley asked about the top tier business school concept. Mr. Gibson responded that he had not included it as a legislative concept because it was a high risk idea, but conceded that if there was one big idea to put a lot of money behind that would have been it. Chair Alley also wanted the Council to make sure that tracking of House Bill 3613 was a part of the recommendations, albeit not in legislative concept form. Mr. Gibson responded that this was happening with participation on an advisory board and assistance with merchandising the money to various firms.

Chair Alley then asked for any additional comments on the five priority recommendations and upon their approval send them back to committees for more work on performance measure predictions and messaging. Recommendations were made to the Business & Capital Formation committee to put together an "investment continuum" to include updates from the new Credit Suisse investment program in their recommendations as a whole. Discussion ensued as to how many legislative proposals should be counted. Mr. Larson responded that the discussion was similar to what was discussed at the start of the committee and that the committee's initial framework was the result of this discussion. Chair Alley then proposed that the Council allow the committees to work over the summer to further develop these concepts with the idea that at the September meeting they would be prioritized and reviewed for final approval. Senator Deckert approved the motion, and Keith Larson seconded, and approval for the motion was anonymous.

Coordination of Alphabet Soup

Ms. Scruggs asked for a brief discussion of ways to work with various partner agencies and industry organizations to simplify and strengthen a message. She had spoken with Mardi Saathoff who recommended that a subgroup of OCKED get together with ETIC to work on coordinating their initiatives. She also asked Council members to go back to other organizations they were involved in and make sure those groups were brought up to date and were supportive of OCKED's goals. Counting on Council members to help coordinate and it would be everyone's responsibility. She asked for any additional comments. Mr. Craven noted the creative tension in the group, most of the initiatives OCKED proposes are

“policies for the future” which was appropriate given their mission. The tension arose with groups who represented “policies of the present” on behalf of businesses. It was important to make sure the two didn’t get played against each other, avoid getting people who participate in both business organizations and OCKED to leverage one against the other. Treasurer Edwards emphasized the importance in leadership overall, and making sure that leadership in various sectors had the vision to recognize the importance of investing in the future. Duncan Wyse noted that all of these ideas were present in the Oregon Business Council’s Business Plan, and he encouraged members to provide feedback on the Plan to help increase productivity.

New Business/Announcements

Ms. Scruggs proposed the next two meeting dates as September 30th and November 16th and asked people to check their calendars to see if they were available. Staff would try to set dates and locations as soon as possible. Mr. Alley then asked for approval of the minutes following any comments. The minutes were approved unanimously, with Mr. Larson moving to approve and Senator Deckert approving the motion.

Public Comment

Chair Alley asked for public comment. With no one offering public comment, Keith Larson gave a brief review of the FASBE investment program that could have an impact on state investment vis-a-vis offering of company stock options. Bills were going through Congress that would chill the offering of options, and the AeA was in the process of investigating the impacts. Chair Alley asked for some projected data.

With no other business, Chair Alley adjourned the meeting at 4:15 PM.