

PUBLIC HEARING
SB 21, 22, 23 A, 24, 25 A

TAPES 161,162, A-B

HOUSE REVENUE COMMITTEE

MAY 17, 2005 1:00 PM STATE CAPITOL BUILDING

Members Present: Rep. Tom Butler, Chair
 Rep. Vicki Berger, Vice-Chair
 Rep. Mark Hass, Vice-Chair
 Rep. Brian Boquist
 Rep. Sal Esquivel
 Rep. Larry Galizio
 Rep. Betty Komp
 Rep. Andy Olson
 Rep. Chuck Riley

Witnesses Present: Mike Mueller, Asst. Director to Investments, Dept. of Treasury
 Kate Richardson, Chief of Staff, Dept. of Treasury
 Pat Clancy, Municipal Debt Advisory Commission
 Harvey Rogers, Attorney
 Michael Parker, Director of Oregon 529, Dept. of Treasury

Staff Present: Paul Warner, Legislative Revenue Officer
Mazen Malik, Economist
Steve Meyer, Economist
Lizbeth Martin-Mahar, Economist
Kristi Bowman, Committee Assistant

TAPE 161, SIDE A

002 Acting Chair Berger Calls meeting to order at 1:05 p.m.

OPENS PUBLIC HEARING FOR SENATE BILL 21

- 007 Mazen Malik Gives background of SB 21 (Exhibits 1 and 2). The bill deletes the prohibition on investment of certain funds in foreign securities. The securities are dollar-denominated. There is no revenue or fiscal impact.
- 033 Michael Mueller Discusses Oregon Short-Term Fund and reads from written testimony (Exhibit 3). The goals of the Short-Term Fund will not change. The goals are: preservation of principle, liquidity, and yield.
- 058 Rep. Boquist Asks: 1) for explanation of the types of investment funds outside the U.S., 2) about the dispute resolution process concerning international firms.

- 064 Mueller Responds: 1) refers to examples shown in testimony. Other securities would be chosen by the Manager of the Short-Term Fund, and the securities would be the most highly-rated 2) risk is frequently taken with domestic companies in the securities portfolio, and he does not see any additional risk involved with highly-rated international firms.
- 090 Rep. Hass Comments that in the 1980s there was great concern about Oregon making investments in South Africa. Asks about the result of those discussions, and are the current securities different from those in the 1980s? Asks why the prohibition was put into law.
- 096 Mueller Responds that the prohibition regarding South African investments concerned the PERS retirement fund. In his opinion, the prohibition was put into law at a time when the security markets were not as robust as they are currently.
- 112 Rep. Boquist Comments that the current securities would be dollar-based securities.
- 123 Rep. Riley Clarifies that the intent of the bill is not to invest in anything other than dollar-based investments, even though that is not specifically stated in the bill.
- 125 Mueller Agrees with Rep. Riley. Investment guidelines are not stated in statute but they are in the portfolio rules. Refers to Oregon Revised Statute (ORS) 294.835, section 2, pertaining to the prohibition question.
- 140 Malik Clarifies that the parent company is foreign-based, but the companies that are used for investment are on American financial exchanges.

CLOSES PUBLIC HEARING FOR SENATE BILL 21

OPENS PUBLIC HEARING FOR SENATE BILL 22

- 156 Malik Gives overview of SB 22 (Exhibits 4 and 5). The bill removes the prohibition on the State Treasurer to invest certain funds in common stock. Allows the Treasurer to work as the Investment Officer instead of going through an intermediary. There is no revenue or fiscal impact. The Oregon Investment Council (OIC) oversees the investment process.
- 184 Mueller Testifies in support of SB 22 and reads from written testimony (Exhibit 6). The change in this law pertains to the Public Employee Retirement Fund (PERF) and the State Accident Insurance Fund. The bill repeals language that prohibits the State Treasurer from investing PERF or insurance assets directly into common stocks. Oregon currently hires third parties to invest on behalf of the Funds, and it costs millions of dollars in outside management fees. The bill would allow more direct investment in real estate and private equity funds.
- 270 Rep. Boquist Comments on the bill having no fiscal or revenue impact. Is the Treasurer's office going to use existing staff?
- 290 Mueller Responds that if this strategy were implemented, it would involve additional staff.

- 301 Malik Comments on the possible fiscal impact for additional staff. SB 22 only removes the prohibition that would allow the Treasurer to make direct investments. Discussion with Rep. Boquist about the Treasurer's office needing new staff to make the investments.
- 349 Rep. Boquist Asks Mueller about the intent of the bill in addition to removing the prohibition.
- 359 Kate Richardson Responds that at this time the Treasurer's office is not expanding staff to implement the plan. In order to move ahead, there needs to be a law to allow the process to take place.
- 381 Mueller Comments that the bill would allow the Treasurer's office to have the opportunity to make co-investments.
- 398 Acting Chair Berger Asks about safeguards and the process the OIC uses to oversee the investments.
- 405 Mueller Responds that there would be the same security as in PERS investments. Nothing would change under the ORS 293.726 Prudent Investment Standard. If it were deemed necessary to add staff, the Treasurer's office would then go through the justification process.
- 418 Rep. Boquist Expresses concerns about just having "enabling language."

431 Malik Comments that additional staff would have to go through appropriation process.

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016 Rep. Komp Asks if Treasury currently has expertise in-house to make co-investments.

018 Richardson Responds that the Treasury Dept. already has in-house investment officers. This bill would allow the Dept. to take back some of the outside management currently in place.

027 Acting Chair Berger Asks Mueller to discuss his testimony given in the Senate hearing on 02/16/05.

034 Mueller He refers to a clause in the bill that Treasury seeks to delete regarding prohibitions on the State Treasurer.

041 Malik Comments that the ORS reference cited by Mueller includes language pertaining to the investment pool.

047 Rep. Boquist Comments on the Staff Measure Summary (SMS) statement: "allows state and local governments to take direct ownership position in equities without contracting through outside fund management company." Asks for clarification.

- 051 Malik General comments about the State Treasurer local investment pool, which is under strict restrictions.
- 065 Richardson Comments that the ORS section referred to by Mueller is the restriction language.
- 073 Acting Chair Berger Comments that the bill needs further work because there is some ambiguity.
- 075 Rep. Boquist Expresses concern about checks-and-balances and other issues referred to in the SMS from the Senate hearing (Exhibit 5).
- 082 Rep. Galizio Comments that he is surprised that these obstacles and barriers are in place. There is a structure in place with the Investment Council.
- 101 Acting Chair Berger Comments that the Revenue Committee needs more information on investment policies of Treasurer's office.

CLOSES PUBLIC HEARING FOR SENATE BILL 22

OPENS PUBLIC HEARING FOR SENATE BILL 23 A

- 114 Malik Gives overview of SB 23 A (Exhibits 7 and 8). The bill makes numerous technical changes to procedures for issuing, selling and maintaining bonds issued by public issuers. SB 23 A clarifies language pertaining to the cap on bonded debt.
- 187 Patrick Clancy Testifies in support of SB 23 A. Discusses the membership and purpose of the Municipal Debt Advisory Commission (MDAC). The commission meets biannually to review statutes pertaining to municipal debt that need to be updated. Comments on the Commission's ideas regarding unintended conflicts of law and modernization of technologies.
- 274 Harvey Rogers Testifies in support of SB 23 A and submits written testimony and handout (Exhibit 9). Discusses sections of the bill that need to be updated.
- 306 Rep. Boquist Asks for clarification of the term "governmental unit" in Section 3.
- 307 Rogers Responds that "governmental unit" is a general term that applies to any public corporation. "Municipality" refers to counties and cities.
- 345 Rogers Continues with discussion of Section 4 from handout.
- 351 Rep. Boquist Asks what is common practice for disclosure notification.
- 325 Rogers

Responds that there is no timing requirement in SB 23 A. The policy judgment expressed in Section 4 is that governments should have the freedom to make the notification interval as short as possible.

- 370 Clancy Comments that the timing issue has been eliminated because of the increased use of electronic notification.
- 375 Rogers Continues with discussion of Section 5.
- 400 Rep. Berger Asks whether the changes made to Section 5 in the 2003 Legislative Session were not clear and now require the changes proposed.
- 402 Rogers Responds yes, and discusses the history of some of the technical language changes needed after the statute was passed.
- 445 Rogers Continues with discussion of Sections 6-13.

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- 056 Rep. Berger Asks for a specific example for section 13.
- 057 Rogers Responds with discussion of the Oregon Economic and Community Development Dept. bond issuance program. Continues with discussion of Sections 14-34.

162 Rep. Berger Asks about the difference between a municipal corporation and a governmental unit.

175 Rogers Explains that both terms are defined in statutes ORS 286-288. The term “governmental unit” is more commonly used now and is more inclusive. The term “municipality” is an older term and was less inclusive. Regarding the term “municipal corporation,” it concerns hospitals and similar organizations.

CLOSES PUBLIC HEARING FOR SENATE BILL 23 A

OPENS PUBLIC HEARING FOR SENATE BILL 24

214 Steve Meyer Gives overview of SB 24 which deals with the Common School Fund (Exhibit 10) and the Distributable Income Account within the Fund. The primary goal discussed in the Senate hearing on 02/08/05 was to make a distinction between investment policy and distribution policy.

247 Mueller Testifies in support of SB 24 and reads from written testimony (Exhibit 12). Comments that SB 24 will “align the law with the best practices of money management from a prudent investor’s standpoint.”

275 Chair Butler Asks for clarification or a graph of gains and losses in the Common School Fund.

312 Mueller Comments that the intent of the bill is to set distribution policy with a view to the long-term and not concern ourselves with the annual fluctuations of the market.

324 Chair Butler General comments about the investment process.

CLOSES PUBLIC HEARING FOR SENATE BILL 24

350 Chair Butler General comments on HB 3466.

OPENS PUBLIC HEARING FOR SENATE BILL 25

389 Lizbeth Martin-Mahar Gives overview of SB 25 A (Exhibits 13 and 14) pertaining to the Oregon 529 College Savings Network Fund. The bill allows the Treasury Dept. to accept donations for awarding scholarships, grants, and other incentives to account owners and their beneficiaries. Refers to the revenue impact statement (Exhibit 15).

TAPE 162, SIDE B

023 Michael Parker Testifies in support of SB 25 A and reads verbatim from written testimony (Exhibit 16).

- 059 Chair Butler Asks about resources for funding scholarships.
- 060 Parker Responds that resources come from private sector program managers.
- 068 Chair Butler Comments that the Treasury Dept. will become a scholarship administrator. Discussion with Parker about the fund mechanics and budgetary concerns.
- 083 Parker Adds that there is no additional staff needed because of the partnership with credit unions and banks to help the Treasury Dept. with the process. Professional money management services has an expenditure allowance in the Treasury budget. The Treasury Dept. wants to get more people involved in the 529 Program to save for college. Discusses the marketing program. The goal of the bill is to set the scholarship program in perpetuity.
- 119 Chair Butler Asks for more specifics on the management partners.
- 120 Parker Responds that the Strong Fund was the original management partner but was replaced in 2003-2004 with Oppenheimer Funds and Vanguard to manage the direct product. MFS Investment Management provides an advisory product.
- 132 Chair Butler Discussion with Parker about the relationship with the private sector management firms.

- 150 Rep. Hass Asks about the process of providing money to the scholarship fund.
- 151 Parker Responds that Oppenheimer and Vanguard provide Treasury with resources to market the scholarship program. Revenue for the fund comes from private sector partners who help market the program, and the ten basis points from participants that help pay for administrative costs. The Treasury Dept. is contemplating soliciting additional donations from the private sector.
- 170 Rep. Hass Asks for more specifics about donations and the process required to make that happen.
- 171 Parker Discusses administrative rule changes that will need to be proposed to their Board if SB 25 A passes. Both Oppenheimer and MFS each provide \$700,000 per biennium to pay for marketing and auditing the program.

CLOSES PUBLIC HEARING FOR SENATE BILL 25 A

- 192 Chair Butler Adjourns meeting at 2:42 p.m.

Tape Log Submitted by:

Reviewed by:

Kristi Bowman, Committee Assistant

Kim Taylor James, Committee
Coordinator

Exhibit Summary:

1. 1. SB 21, Staff Measure Summary, Malik, 1 pg., 05/17/05
2. 2. SB 21, Staff Measure Summary, Malik, 1 pg., 02/09/05
3. 3. SB 21, Testimony, Mueller, 1 pg., 05/17/05
4. 4. SB 22, Staff Measure Summary, Malik, 1 pg., 05/17/05
5. 5. SB 22, Staff Measure Summary, Malik, 1 pg., 02/21/05
6. 6. SB 22, Testimony, Mueller, 2 pp., 05/17/05
7. 7. SB 23, Staff Measure Summary, Malik, 1 pg., 05/17/05
8. 8. SB 23, Staff Measure Summary, Malik, 1 pg., 02/23/05
9. 9. SB 23, Testimony and Handout, Rogers, 4 pp., 05/17/05
10. 10. SB 24, Staff Measure Summary, Meyer, 1 pg., 02/09/05
11. 11. SB 24, Revenue Impact Statement, Meyer, 1 pg., 02/09/05
12. 12. SB 24, Testimony, Mueller, 1 pg., 05/17/05
13. 13. SB 25, Staff Measure Summary, Martin-Mahar, 1 pg., 05/16/05
14. 14. SB 25, Staff Measure Summary, Martin-Mahar, 1 pg., 03/22/05
15. 15. SB 25, Revenue Impact Statement, Martin-Mahar, 1 pg., 03/28/05
16. 16. SB 25, Testimony, Parker, 2 pp., 05/17/05