

SENATE REVENUE COMMITTEE
JANUARY 31, 2005 9:00 AM STATE CAPITOL BUILDING

Members Present: Senator Ryan Deckert, Chair
Senator Charles Starr, Vice Chair
Senator Gary George
Senator Rick Metsger
Senator Floyd Prozanski

Witnesses Present: Ron Schmitz, Oregon State Treasury
Mike Mueller, Oregon State Treasury
Kate Richardson, Oregon State Treasury

Staff Present: Paul Warner, Legislative Revenue Officer
Mazen Malik, Economist
Steve Meyer, Economist
Barbara Guardino, Committee Assistant

TAPE 17, SIDE A

004 Chair Deckert Calls meeting to order at 9:02 a.m. Introduces three bills from Oregon State Treasury. Announces, committee will begin meeting at 8:30 a.m. next week.

PUBLIC HEARING, SENATE BILL 21

015 Mazen Malik Gives overview of SB 21 (**EXHIBIT 1**). Deletes prohibition on investment of certain funds in foreign securities. Two sections.

046 Ron Schmitz Testifies in favor of bill. See written testimony (**EXHIBIT 2**). Explains, bill would remove language restricting holding of securities outside the United States. These are for money market, short-term debt, not equities. This will not create a higher risk. Explains short-term fund, fields questions.

079 Mike Mueller Explains, fund holds the cash assets of all state agencies and local governments participate as they choose to do so.

092 Sen. C. Starr Asks, is there an economic stimulus in investing funds in a company? Follow-up questions.

098 Schmitz Responds, that is true to a degree.

115 Sen. George Expresses concern that Oregon dollars are being invested outside the state.

126 Schmitz Clarifies, this would only be a small percentage of short-term funds.

135 Sen. George Asks what percentage is invested in Oregon?

146 Schmitz Will get back to committee with that information. Percentage is very small. Answers follow-up questions.

170	Mueller	Treasury's goal is to achieve highest return possible. Short-term fund invests in highly secured debt instruments only.
180	Chair Deckert	Does Oregon have other restrictions in statute on foreign securities?
188	Schmitz	Responds, there are statutory restrictions. Governing boards put restriction on them.
195	Chair Deckert	Closes public hearing on SB 21.

PUBLIC HEARING, SB 22

206	Malik	Gives background on SB 22, which removes prohibition on State Treasurer investing certain funds in common stocks (EXHIBIT 3, EXHIBIT 4). Three funds include PERS, Industrial Accident Fund (IAF) and Deferred Compensation fund.
246	Schmitz	Testifies in support of SB 22. See testimony (EXHIBIT 5). Repeals language that prohibits direct ownership of equities. Change would save Oregon millions of dollars in fees.
321	Schmitz	Continues, implementation of such a program is not a done deal. Envisions back-test strategies before running it live.
345	Chair Deckert	Asks for an example of a fund that would be back-tested.
349	Schmitz	Gives example. Envisions low-risk strategy.
368	Sen. Metsger	Asks, by deleting prohibition, is it true that potentially the state treasurer could manage all investments?
386	Schmitz	Responds, that is true but highly unlikely.
403	Sen. Metsger	Asks where are the checks and balances?
415	Schmitz	Responds, Oregon Investment Council would still be the governing body and would hire staff to manage it.
432	Sen. Metsger	Expresses concern that if state treasurer is in that position, there may be a potential for lobbying.

TAPE 18, SIDE A

020	Schmitz	Continues discussion on checks and balances.
035	Sen. George	Does California have this kind of authority with its retirement plan?
040	Schmitz	Yes, many of the larger states do.
062	Sen. George	What impact will this have on real estate market? How much of state would it be good for the government to own?
060	Schmitz	Bill would not increase OPERS' current 8% real estate target.
074	Sen. George	Comments, because of a trend of massive holdings, he sees a potential for political correctness to influence decisions.

089	Schmitz	Not to the extent Sen. George fears. Answers follow-up questions.
121	Sen. Prozanski	Would like to see information on other states that have this type of process, and the checks and balances those models have.
142	Chair Deckert	Perhaps there is another way to design statutorily some other sort of check and balance.
165	Prozanski	Follow-up questions.
169	Sen. George	Comments, there is risk potential. Asks how other states have fared.
174	Mueller	Does not believe this bill would change the risk; it would just reduce costs.
189	Chair Deckert	Closes public hearing on SB 22.

PUBLIC HEARING, SB 24

195	Steve Meyer	Describes bill (EXHIBIT 6, EXHIBIT 7), Common School Fund and distributable income account within the fund.
208	Mueller	Testifies in support of SB 24. See written testimony (EXHIBIT 8). Current statute provides for investment terms that are not clearly defined. Proposed bill will align the law with the best practices of money management.
239	Sen. Metsger	Asks for an example of situations resulting in losses.
243	Mueller	Gives example.
269	Sen. George	Asks where money would come from to cover loss.
280	Mueller	Goal is to look at fund over the long-term. Will earn return over long-term to cover losses.
294	Chair Deckert	Comments on prior debate over Common School Fund. Asks whether State Treasury has an opinion on whether legislature should review the construction of the fund and the limits placed upon it.
313	Mueller	Responds, fund has performed extremely well and schools have benefited from distributions. Proposed legislation would take the Department further along in managing it more effectively.

328 Chair Deckert
PUBLIC HEARING, SB 21

352	Chair Deckert	Closes public hearing on SB 24. Requests further comment on SB 21. Heard some investments had not been made in Oregon firms, which would defeat the intent of the legislation.
325	Kate Richardson	Responds, Treasury would be glad to come back and give overview on last session's HB 3613.
363	Mueller	Explains contractual relationships between general partners.
399	Richardson	Answers follow-up questions.

437	Sen. George	Asks why wouldn't it be prudent to invest in Oregon?
474	Mueller	Clarifies, there is no partnership whose mandate is solely to invest in Oregon. Because the state can't invest in companies directly, it is forced to work through fund partnerships and investment managers.
501	Chair Deckert	Committee will discuss collections and compliance process over the rest of the week.
525	Chair Deckert	Adjourns meeting at 10:00 a.m.

Tape Log Submitted by,

Barbara Guardino, Committee Assistant

Reviewed by Kim Taylor James

Exhibit Summary:

1. SB 21, Staff Measure Summary, Malik, 1 pp.
2. SB 21, Testimony in Support of Senate Bill 21, Schmitz, 1 pp.
3. SB 22, Staff Measure Summary, Malik, 1 pp.
4. SB 22, Legislative Fiscal Office No Expenditure Impact Statement, Malik, 1 pp.
5. SB 22, Testimony in Support of Senate Bill 22, Schmitz, 2 pp.
6. SB 24, Revenue Impact of Proposed Legislation, Meyer, 1 pp.
7. SB 24, Legislative Fiscal Office, No Expenditure Impact Statement, Meyer, 1 pp.
8. SB 24, Testimony in Support of Senate Bill 24, Schmitz, 1 pp.