

HOUSE REVENUE COMMITTEE
FEBRUARY 5, 2003 8:30 AM STATE CAPITOL BUILDING

Members Present: Representative Wayne Scott, Vice Chair
Representative Joanne Verger, Vice Chair
Representative Phil Barnhart
Representative Vicki Berger
Representative Pat Farr
Representative Mark Hass
Representative Elaine Hopson
Representative Max Williams

Members Excused: Chair Lane Shetterly

Witness Present: Kate Richardson, State Treasury
Chuck Smith, State Treasury
Joan Robinson, Legislative Counsel
Ann Hanus, Division of State Lands
Chuck Bennett, Confederation of Oregon School Administrators (COSA)

Staff Present: Paul Warner, Legislative Revenue Officer
Dick Yates, Legislative Revenue Office
Kathy Tooley, Committee Assistant

TAPE 31, SIDE A

004	Vice Chair Scott	Calls meeting to order at 10:38 a.m.
006	Paul Warner	Directed the Committee's attention to background information from Governing Magazine, (Exhibit 1), which reviews Oregon and Washington's revenue systems from an outside perspective.

OPENED PUBLIC HEARING ON HB 2312

026	Dick Yates	Provided a description and background of the measure, Revenue Impact (Exhibit 2), and Fiscal Impact (Exhibit 3), "Master Settlement Agreement Research Brief No. 9-02", (Exhibit 4).
060	Kate Richardson	Provided background to the Committee on the status of Master Settlement Agreement (MSA) Revenues, "Master Settlement Asset Corporation Update", (Exhibit 5) and directed Committee's attention to "Enrolled Bill 4073", which created MSA Corp, (Exhibit 6).
118	Chuck Smith	Provided background on how costs are figured, "Master Settlement Asset Sale Estimated Costs, \$150,000,000 Proceeds", (Exhibit 7).
182	Rep. Williams	Remaining revenues and the stream projected does it assume a standard payment into the settlement agreement from the tobacco companies without variation?
189	Richardson	Deferred to Yates.
192	Yates	Referred to the research report, (Exhibit 4), which allows annual payments into a national escrow account with Oregon receiving 1½% of those

revenues. Payments are subject to volume and payment adjustments.

- 230 Richardson LC 1449, addresses a possible disruption to the MSA stream, due to pending litigation and punitive damages. LC 1449 addresses these bonds and protects MSA stream, providing security for the market.
- 242 Yates Has the full \$200 million been issued?
- 255 Chuck No. The first \$93 million has been issued, the second/final issuance would take place after this legislative session.
- 257 Joan Robinson Explained HB 2312 to the Committee, deals with definitions for the qualifying statute for the MSA, the only possible issue is whether this amendment constitutes a substantive amendment to the qualifying statute which the state is prohibited from doing. Spoke with Peter Shepherd from Department of Justice, who does not believe it is a substantive amendment. Bill is a housekeeping bill.
- 292 Rep. Farr The definition of cigarette includes roll your own tobacco, does that include packages of tobacco that do not include rolling papers? Does it include pipe tobacco included?
- 310 Robinson I do not believe that pipe tobacco is part of the settlement.
- 315 Yates I do not know; I don't believe so. Oregon has a distinction between cigarettes and other tobacco, both subject to taxation.
- 332 Rep. Barnhart His understanding of definitions is to have a set of statutes that put into effect the Master Settlement Agreement of 1998 and that's all they are for. That's the purpose of this amendment, to make certain that these definitions only apply to that section of the law.
- 342 Vice Chair Scott Close hearing on HB 2312.

OPENS PUBLIC HEARING ON HB 2180

- 366 Ann Hanus Gave background testimony regarding the intent of HB 2180, (Exhibit 8), and a slide presentation on the "Common School Fund Assets", (Exhibit 9).

TAPE 32 – SIDE A

- 000 Hanus Continues presentation
Questions and discussions regarding revenues.
- 345 Hanus Continues presentation regarding distribution formula which looks at year-to-year change in CSF. During the late 90's increases were 15-20%, enabling the maximum distribution to go to the schools of \$40 to \$50 million per year. After recent years losses, the Attorney General's office has determined only earnings of the fund may be distributed; and cannot access principal or capital gains from several years ago
- 374 Rep. Williams Would be interested in revisiting discussion from the special sessions about use of particular portions of the CSF. Regarding constitutional lands and unclaimed property, there was strong discussion between Legislature and Legislative Counsel's office, the Attorney General's office and the Division of State Lands, about what portion of the principle of the CSF that the legislature

could potentially use for short term budget issues. One discussion included the use of some portion of unclaimed property, has your position changed since the special session?

- 406 Hanus Our position has not changed. There were legal issues regarding unclaimed property, the state does not hold title to unclaimed property, it is held in trust in perpetuity. The Attorney General has advised that there are restrictions to using that without repayment, and there are certain criteria required to meet repayment requirements.
- 430 Rep. Williams Do you know what the value of the fund was in February 2002 vs. its current value, or how much has it decreased in value in the last 2 years?
- 440 Hanus Summer of 2000, when the stock market was at its highest, it was \$750 to \$800 million. It has fluctuated in the last year, to between \$600 and \$700 million.
- 454 Rep. Williams Is it fair to say Oregon lost \$100 to \$150 million in the last year?
- 458 Hanus Yes, that is correct.
- 467 Rep. Williams My point is that we lost as much money in the market as we could have taken out of the fund by letting the money sit in the fund. This session, we should look at the legal issue regarding the ability to use portions of the fund, particularly unclaimed property, to address the current fiscal position.

TAPE 31, SIDE B

- 025 Hanus Advised the Committee, that it should look at this fund as a long term fund. Over the long run it should be earning 7% per year; within 10 years this fund should be doubled to \$1.2 billion.
- 052 Rep. Williams We shouldn't only look at 2 generations out, we should also look at current generation's needs.
- 063 Rep. Hass Inquired about proposals regarding selling state forest lands to make to a more manageable asset, what are the trade-offs if this is done?
- 078 Hanus Know of a proposal, if you were to sell Elliott State Forest, it would go into CSF. It would not be available for distribution to address current problem because it is part of a constitutional land base. Elliott State Forest important part of the real estate portfolio of the CSF, yielding 3-4% annually.
- 60 Rep. Hass With forest fire liabilities and falling price of timber, did not know it was profitable.
- 090 Hanus Advised that Elliott State Forest was profitable and has an important place in the CSF for the long term.
- 093 Rep. Barnhart When was last time, before the peak, that the CSF fund was worth what it is now?
- 095 Hanus Highest was \$800 million, at the beginning of 1990's.
- 103 Rep. Barnhart What was the approximate date, before peak, when it was worth approximately what it is now?
- 105 Hanus It probably goes back to 1997.

119 Rep. Barnhart From 1997 to today, there have been substantial distributions from the CSF for schools, \$150-200 million, yet the fund is worth today what it was 6 years ago; and its worth 4 times what it was a decade ago. Your strategy looks better if you look at development from last decade, than if we only look at the period from the top of the market to today.

125 Hanus Yes, the portfolio mix is one thing when considering investment strategy.

133 Vice Chair Scott Open public hearing for HB 2180

PUBLIC HEARING HB 2180

138 Hanus Discussed the bill, the background intent. Two things the bill does:

- Allows the land board to establish a reserve account to capture earnings during good times to be used for distributions during market downturns
- Secondly, it eliminates the requirement that any losses resulting from equities be deducted from the earnings prior to distribution.

The Attorney General advised that State Lands could not withdraw earnings after biennium in which they were earned. Also looking at another option that will revise the asset portfolio mix from 68% equities to 50% equities to have a more predictable flow of earnings.

Would like to hold off action on this bill until she can provide the committee with recommendations for school distributions in the next one to two months.

209 Chuck Bennett Agrees with Director Hanus on her suggestion to hold off on this bill. The portion of the bill dealing with portfolio management is a reasonable approach. COSA is not supporting establishment of an account that exposes portions funds available for distribution from the Common School Fund over a period of time, setting up an equalization or stabilization fund. Our belief is to expose those funds would be to have them used for purposes other than distribution to schools.

249 Vice Chair Scott Closed public hearing to allow for more information at a later date.

WORK SESSION FOR INTRODUCTION OF LC 1449, LC 2090

255 Vice Chair Scott Opened work session on introduction of bills.

263 Paul Warner LC 1449 was referred by Treasury, in preparing securitization and establishing Master Settlement Asset Corporation, this bill helps clarify the securitization process.

272 Rep. Williams **MOTION: MOVES INTRODUCTION OF LC 1449 AS A COMMITTEE BILL.**

274 Vice Chair Scott **ORDER: THERE BEING NO OBJECTION, THE VICE CHAIR SO ORDERS: Members present, Reps. Barnhart, Berger, Farr, Hass, Hopson, Scott, Verger, Williams. Members excused: Chair Shetterly.**

284 Vice Chair Scott Clarifies the bill is entered as a Committee Bill, but does not indicate support or opposition by the members of the Committee.

290 Warner LC 2090, at the request of the Columbia River Steam Ship Operator's Association extends the period cargo containers are exempt from property tax.

300 Rep. Williams **MOTION: MOVES INTRODUCTION OF LC 2090 AS A COMMITTEE BILL**

**AT THE REQUEST OF THE COLUMBIA RIVER STEAMSHIP
OPERATOR'S ASSOCIATION.**

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| 302 | Vice Chair Scott | ORDER: THERE BEING NO OBJECTION, THE VICE CHAIR SO ORDERS. |
| 315 | Vice Chair Scott | Clarifies the bill is entered as a Committee Bill, but does not indicate support or opposition by the members of the Committee. |
| 329 | Vice Chair Scott | Meeting adjourned at 9:58 a.m. |

Tape Log Submitted by,

Kathy Tooley, Committee Assistant Reviewed by Kim Taylor James

Exhibit Summary:

1. Warner, Governing Magazine, February 2003, "Oregon", page 82, "Washington", page 94, 2 pages
2. Yates, Notice of Potential Revenue Impact HB 2312, 1 page
3. Yates, Legislative Fiscal Impact HB 2312, 1 page
4. Yates, Master Settlement Agreement Research Brief, No. 9-02, 3 pages
5. Richardson, Master Settlement Asset Corporation Update, 1 page
6. Richardson, Enrolled House Bill 4073, 10 pages
7. Smith, "Master Settlement Asset Sale Estimated Costs, \$150,000,000 Proceeds", 1 page
8. Hanus, "House Bill 2180, Testimony of Ann Hanus, Director, Division of State Lands", 2 pages
9. Hanus, "The Common School Fund Assets", 18 pages
10. Vice Chair Scott, "LC 1449", 13 pages
11. Vice Chair Scott, "LC 2090", 1 page.