

**HOUSE REVENUE COMMITTEE  
JULY 10, 2003 8:30 AM STATE CAPITOL BUILDING**

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

Members Excused: Representative Joanne Verger, Vice Chair

Witness Present: Ozzie Rose, Confederation of Oregon School Administrators  
Bill Kluting, Western Council of Industrial Workers Legislative Affairs

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

**TAPE 218, SIDE A**

|     |                 |   |
|-----|-----------------|---|
| 004 | Chair Shetterly | Calls meeting to order at 8:35 a.m.   |
| 024 | Ozzie Rose      | Testifies that Oregon's current tax structure doesn't work and something needs to be done. States that this is the best body to rationally pick out what is best for Oregon and that they should take on the responsibility of developing a plan and going out and selling the plan to Oregonians. Suggests that if they cannot do this, they should at least develop a plan that interest groups could go off of and sell to the public. Discusses the timing of putting tax reform on the ballot. |
| 077 | Bill Kluting    | Testifies that Oregon's tax laws aren't working and discusses problems faced by industrial workers. Refer to written testimony. (Exhibit 1).  |
| 162 | Chair Shetterly | Meeting adjourned at 8:55 a.m.  |

Tape Log Submitted by,

Kathy Tooley, Committee Assistant

**Exhibit Summary:**

1. Bill Kluting, Written Testimony, 1p.
2. Ben Brandon, Revised Written Testimony, 5pp.
3. Steve Haskell, Written Testimony, 1p.

**HOUSE REVENUE COMMITTEE**  
**JULY 10, 2003 2:00 PM STATE CAPITOL BUILDING**

Members Present: Representative Lane Shetterly, Chair  
Representative Phil Barnhart  
Representative Vicki Berger  
Representative Pat Farr  
Representative Mark Hass  
Representative Elaine Hopson  
Representative Max Williams

Members Excused: Representative Wayne Scott, Vice Chair  
Representative Joanne Verger, Vice Chair

Witness Present: Randall Edwards, Oregon State Treasurer  
Chuck Smith, Oregon State Treasury  
Kate Richardson, Oregon State Treasury  
Cynthia Burris, Department of Justice  
Ted Runyon, Legislative Counsel's Office  
Fred Neal, Elections Division of Secretary of State's Office  
Carol Samuels, Seattle Northwest Securities, Portland  
Harrison Conley, Legislative Counsel

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

**TAPE 219, SIDE A**

004 Chair Shetterly Calls meeting to order at 2:08 p.m.

**PUBLIC HEARING ON HB 2651 AND HJR 18**

021 Richard Yates Provided description of HJR 18, (Exhibit 1), HB 2651 (Exhibit 2), described HB 2651-2 amendments, (Exhibit 3). Provided HB 2651, (Exhibit 4); Memorandum from Gregory A. Chaimov, Legislative Counsel, regarding HB 2651-1 Amendments – September Special Election, (Exhibit 5).

062 Randall Edwards The state can take a step in reducing its costs by refinancing the outstanding liability the state has as an employer to the pension system in the amount of \$2.3 billion. Expect savings of \$90 million per biennium, 40% would be applied to General Fund (GF) of \$36 million in the next biennium, translating into a 6.5% reduction in contribution rate.

109 Chair Shetterly \$36 million in the next biennium?

112 Edwards This biennium. Projects cost savings of \$1.3 billion over the life of the bond. Discussed short term and long term importance of issuing General Obligation (GO) bonds for the state to refinance.

116 Edwards Discussed advantage of getting measure on the September ballot, and moving bill package quickly. The market place is at opportune moment for Oregon, quicker it is approved by voters, the quicker bonds can be issued.

|     |                 |   |
|-----|-----------------|---|
| 120 | Chuck Smith     | Reinforced Treasurer's statement with respect to low interest rates for pension obligations, which lowers costs substantially. Lowering rates increases probability for a successful transaction over its life.   |
| 181 | Kate Richardson | Said the issue is a business decision before the Oregon Legislature to help its rates for PERS. Read specified purpose from the Constitution. Bill does not expand borrowing authority. Described forthcoming implementing bill similar to the OHSU Oregon opportunity bond bill seen in the last session.  |
| 220 | Rep. Hass       | Every taxpayer who has refinanced a home understands why this would be done, it makes sense in terms of efforts to reform the PERS system, it doesn't raise taxes and will bring down the costs in the long run.  |
| 227 | Rep. Farr       | The \$2.3 billion is the state's share of unfunded liability?   |
| 228 | Edwards         | Answered affirmatively.   |
| 231 | Rep. Farr       | Does that reflect the savings of this Legislature as provided in the PERS liability?  |
| 232 | Edwards         | Answered affirmatively.   |
| 233 | Rep. Farr       | Is this a vehicle that municipalities and counties could use?   |
| 237 | Smith           | Yes. Local governments have already refinanced over \$2 billion in pension obligation bonds, during the last 12 month period and as recently as 2-3 months ago.   |
| 242 | Edwards         | Almost all of those issuances were general obligation.  |
| 255 | Rep. Berger     | Technically, what if Oregon refinanced \$2 billion at a rate and the unfunded liability goes the other way, how does this play out carrying this debt on a liability that we don't have?  |
| 262 | Smith           | That would be a good thing; first, Treasury proposes \$2 billion rather than \$2.3 billion allowing leeway. Secondly, assume there is going to be a good market, with an 8% return.   |
| 282 | Rep. Berger     | In terms of process, the Legislature has been in session since January, the cities and counties have figured this out ahead of us, why are we hearing about this now?   |
| 284 | Richardson      | Described the Legislature's clearly stated desire to address PERS reform, it was premature before knowing what the unfunded liability is going to be. A lot of work has been done behind the scenes, taking a long time, watched where the markets were going, and providing behind the scenes due diligence work.  |
| 308 | Rep. Barnhart   | This proposal comes with a limitation of 2% of real market of the property which is about \$5.5 billion. Do you have plans for the other 3.2 billion?   |
| 314 | Edwards         | I do not. This is a tool that can be used in the future by future legislatures to address a variety of state's needs. Assuming this passes, Treasury would no longer issue Certificates of Participation (COP); Oregon would have stronger credit in the market with resulting long term costs savings, meeting needs as the Legislature, the Governor and Treasury see fit in expanding that limited resource. |
| 337 | Rep. Barnhart   | Are there outstanding obligations now that could be refinanced now, saving  |

money on current obligations in addition to PERS?

- 344 Smith Treasury has been refinancing continuously at low interest rates, difficult refinancing with narrow spreads; anticipate this as being the perfect tool to do additional future refinancing. The COP programs can be replaced with a GO program and begin to save money this biennium.
- 349 Rep Barnhart Assume you would need additional authority from the Legislature for this kind of switch. Do you already have the authority?
- 350 Smith Treasury does not have the authority.
- 352 Richardson Asked the Attorney General's office to respond more directly, the constitutional amendment with implementing language does have enough implementation that it could be instituted for current COP programs.
- 359 Cynthia Burris The constitutional amendment is written broad enough that when passed would allow constitutionally COPs or deeds to be refunded or deeds to be issued in lieu of a COP type obligation. Discussed forthcoming legislation to implement the constitutional amendment including a specific provision relating to Pension Obligation Bonds (POB) and a provision that would substitute if the GO bond authority is granted in the election for these GO bonds to be issued in lieu of the COP authority granted or in the process of being granted for this biennium.
- 383 Chair Shetterly It takes legislative authority, not Treasurer authority, to incur any indebtedness or refinance with this implementing legislation?
- 391 Burris Answered affirmatively, going forward it would operate similar to lottery program and issuance of lottery bonds.
- 400 Rep. Hass Regarding HB 2651 ballot title, is there a reason why the words are as they are?
- 405 Richardson Legislative Counsel drafted wording.
- 408 Rep. Hass Need to wordsmith it to make it clear what the specific purpose is, it never really defines specific purposes.
- 420 Richardson Understand this to be consistent with prior ballot titles and the specified purposes since they are lengthy are laid out in the summary.
- 439 Edwards Rep Hass are you suggesting there be something that specifies pension?
- 444 Rep. Hass To make clearer, give it a better sell, show it is being done to achieve some savings. As it reads now says to incur debt, which is misleading.
- 458 Chair Shetterly For instance authorize the state of Oregon to incur GO debt to refinance pension obligations and other specified purposes?
- 471 Ted Runyon Discussed statute limitations on captions and exception for new legislation.
- 489 Questions and discussion regarding ballot titles in general and specifically.
- 507 Richardson Suggested alternative language.

|     |                 |  |
|-----|-----------------|--|
| 122 | Chair Shetterly | Does that cause consternation with the counties?   |
| 127 | Fred Neal       | Discussed informal electronic mail poll of counties, to apprise of the potential measure and to ask if there were other issues. Some responded there were county wide measures already, did not anticipate demand for ballot space that would incur additional county expense caused by space problems.  |
| 140 | Chair Shetterly | In terms of GO bond capacity, given what is outstanding and a \$2 billion issue, where does that leave us in the range of low-moderate-high?   |
| 145 | Smith           | The State Debt Policy Advisory Commission looked at capacities of all state bond programs in context, including GO bonds; indicated Oregon has a moderate debt load at \$3 billion, would increase over time as a function of revenue in the general fund.   |
| 154 | Chair Shetterly | Given what is outstanding already, are we the low end of the moderate range or the high end of the low range?  |
| 157 | Smith           | Current Oregon has moderate debt and could incur an additional \$3 billion worth of this type of debt.   |
| 160 | Edwards         | The rating agencies will be looking at this and have taken a neutral position on the treatment of pension obligation bonds. Moody's has said this could be a smart way to go. As far as capacity goes, did not believe it would be seen as a negative for Oregon in terms of vehicle and its size.   |
| 174 | Chair Shetterly | You mentioned other states, for the record, we are not charting new territory?   |
| 178 | Smith           | Illinois did \$10 billion of GO bonds and has the same rating from Moody's and Standard and Poor's, and was well-received the market place.  |
| 188 | Chair Shetterly | For the record, what are other borrowing mechanisms currently used when the state does use GO bonds. Discussed COPs, appropriation credits, Lottery bonds, talk about those alternatives. We're giving the state the ability to go after the lowest rate option.   |
| 197 | Smith           | Looking at appropriation credits, including COPs and Oregon appropriation bonds, discussed options would not pursue.   |
| 217 | Neal            | Discussed short time frame to pass bill in order to make the September ballot, (Exhibit 7) beyond July 18 puts at risk the state voter's pamphlet and production of ballots that pay respect to overseas, and military ballots. Second, -2s do not provide an appropriation to reimburse counties an Secretary of State's office will incur to get the voters pamphlet printed and distributed. Elections understands that an appropriation will follow and subsequent implementation legislation. |
| 252 | Carol Samuels   | Works with governments and school districts on pension obligation bonds, endorsed this as a prudent financial tool for the state. Interest rates are at all time lows, savings could be over \$100 million for the next biennium. A GO bond to access the savings will augment savings compared to sales on an appropriation basis.  |
| 267 | Chair Shetterly | The market knows what these are and likes these?   |
| 269 | Samuels         | The market likes them more than the appropriation bonds sold previously, and that is seen in lower interest rates.   |
| 273 | Chair Shetterly | Asked about her reaction on rating agencies and pension obligation bonds?  |

- 275 Samuels Rating agencies tend to look at these as a replacement obligation, not a new obligation; therefore this tool replaces the current obligation at lower cost, which is a prudent move from their perspective.
- 286 Rep. Barnhart Asked about her sense of the spread as are currently in the market on the instruments described.
- 293 Samuels The spread between GO and appropriation bonds in this market could be as much as 20 basis points or two-tenths of a percent, or about \$100 million over the life of the issue.
- 306 Chair Shetterly Questions and discussion over amendments to HJR 18 and HB 2651 and limited timeline.
- 337 Chair Shetterly Closed public hearings on HJR 18 and HB 2651.

#### **OPENED WORK SESSION HJR 18**

- 330 Yates Discussed conceptual amendment to HJR 18-A3, Page 2, Paragraph 2, (Lines 13 and 14), (Exhibit 8), should read "Enrolled House Bill 2651" and delete "(LC 3744)".
- 360 Chair Shetterly **MOTION: MOVED CONCEPTUAL AMENDMENT OF THE -A3 AMENDMENT INTO HJR 18, (Page 2, Paragraph 2, line 13), FOLLOWING THE WORD "ENROLLED" INSERT "HOUSE", FOLLOWING THE WORD "BILL" INSERT 2651 AND DELETE "(LC 3744)".**  
  
**ORDER: HEARING NO OBJECTION, THE CHAIR SO ORDERS. (ALL MEMBERS PRESENT EXCEPT REPS. SCOTT AND VERGER, EXCUSED)**
- 388 Rep. Hass **MOTION: MOVED ADOPTION OF THE -3 AMENDMENTS, AS CONCEPTUALLY AMENDED, INTO HJR 18.**  
  
**ORDER: HEARING NO OBJECTION, THE CHAIR SO ORDERS. (ALL MEMBERS PRESENT EXCEPT REPS. SCOTT AND VERGER, EXCUSED)**
- 388 Rep. Hass **MOTION: MOVED , HJR 18, AS AMENDED INCLUDING CONCEPTUAL AMENDMENTS, TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION**  
  
**ROLL CALL: MOTION PASSED 7-0-2**  
**REPRESENTATIVES VOTING AYE: Barnhart, Berger, Farr, Hass, Hopson, Williams, Chair Shetterly.**  
  
**Rep. Chair Shetterly will carry the bill.**

#### **OPENED WORK SESSION ON HB 2541**

- 428 Questions and discussion regarding language of the amendment.
- 483 Burris Discussed concept they are trying to capture in the wording is not that these are just for pension obligations, but that they can be used for savings on other obligations like COPs and to finance new projects as a GO project which would be cheaper than financing as a COP going forward. Provided potential wording.

510 Chair Shetterly Said much of the suggested language was subsumed in "other specified purposes".

**TAPE 219, SIDE B**

053 Questions and discussion regarding language of the amendment.

053 Chair Shetterly **MOTION: MOVED TO CONCEPTUALLY AMEND THE -2 AMENDMENT INTO HB 2541, (Page 1, Exhibit 3), LINES 15 AND 16 TO READ: "AMENDS CONSTITUTION: AUTHORIZES STATE OF OREGON TO INCUR GENERAL OBLIGATION DEBT FOR SAVINGS ON PENSION LIABILITIES AND OTHER SPECIFIED PURPOSES".**

088 Rep. Berger Provided a cautionary note that the Committee is going very fast on something that is very important. Supports refinancing as a very good idea, but wants to ensure all the i's are dotted and t's crossed in the short time line.

096 Rep. Williams Commented on status of bill as a House Bill and will still go through the Senate, has confidence given strong bi-partisan support will have the time to pick up any corrections in the Senate.

113 Richardson Also believe it would make sense to have the result of yes vote and no vote also reflect those changes.

117 Chair Shetterly Using the same language?

118 Richardson Answered affirmatively.

122 Chair Shetterly **ORDER: HEARING NO OBJECTION, THE CHAIR SO ORDERS. (ALL MEMBERS PRESENT EXCEPT REPS. SCOTT AND VERGER, EXCUSED)**

126 Chair Shetterly **MOTION: MOVED TO CONCEPTUALLY AMEND THE -2 AMENDMENTS INTO HB 2541, (Page 1, Exhibit 3) LINES 18 AND 19 TO READ: "RESULT OF "YES" VOTE: "YES" VOTE AUTHORIZES STATE TO INCUR GENERAL OBLIGATION DEBT FOR SAVINGS ON PENSION LIABILITIES AND OTHER SPECIFIED PURPOSES".**

131 Chair Shetterly **ORDER: HEARING NO OBJECTION, THE CHAIR SO ORDERS. (ALL MEMBERS PRESENT EXCEPT REPS. SCOTT AND VERGER, EXCUSED).**

132 Chair Shetterly **MOTION: MOVED TO CONCEPTUALLY AMEND THE -2 AMENDMENTS INTO HB 2541, (Page 1, Exhibit 3) LINES 21 AND 22 TO READ: "RESULT OF "NO" VOTE: "NO" VOTE DOES NOT AUTHORIZE STATE TO INCUR GENERAL OBLIGATION DEBT FOR SAVINGS ON PENSION LIABILITIES AND OTHER SPECIFIED PURPOSES".**

137 Chair Shetterly **ORDER: HEARING NO OBJECTION, THE CHAIR SO ORDERS. (ALL MEMBERS PRESENT EXCEPT REPS. SCOTT AND VERGER, EXCUSED).**

146 Chair Shetterly **MOTION: MOVED ADOPTION OF THE -2 AMENDMENTS, AS CONCEPTUALLY AMENDED, INTO HB 2651.**

**ORDER: HEARING NO OBJECTION, THE CHAIR SO ORDERS. (ALL MEMBERS PRESENT EXCEPT REPS. SCOTT AND VERGER, EXCUSED).**

150 Rep. Hass

**MOTION: MOVED HB 2651, AS AMENDED BY THE -2 AMENDMENTS AS CONCEPTUALLY AMENDED, TO THE HOUSE FLOOR WITH A DO PASS RECOMMENDATION AND THAT THE SUBSEQUENT REFERRAL TO THE WAYS AND MEANS COMMITTEE BE RESCINDED.**

**ROLL CALL: MOTION PASSED 7-0-2**

**REPRESENTATIVES VOTING AYE: Barnhart, Berger, Farr, Hass, Hopson, Williams, Chair Shetterly.**

**Rep. Hass will carry the bill.**

178 Chair Shetterly

Meeting adjourned at 3:15 p.m.

Tape Log Submitted by,

Kathy Tooley, Committee Assistant

Exhibit Summary:

1. Yates, "Staff Measure Summary HJR 18-A3, 1 page
2. Yates, "Staff Measure Summary HB 2651-1, 1 page
3. Yates, "HB 2651-2 Amendment", 5 pages
4. Yates, "Chaimov Memorandum: House Bill 2651-1 Amendments-September Special Election", 1 page
5. Edwards-Richardson, "State of Oregon Pension Obligation Bonds", 3 pages
6. Neal, "Timelines for the September 16, 2003, Special Election", 1 page
7. Yates, "HJR 18-3 Amendment", 2 pages