

HOUSE COMMITTEE ON GOVERNMENT EFFICIENCY

February 6, 2001
8:30 AM

Hearing Room D
Tapes 13- 14

MEMBERS PRESENT: **Rep. Jerry Krummel, Chair**
 Rep. Chris Beck, Vice-Chair
 Rep. Patti Smith, Vice-Chair
 Rep. Alan Brown
 Rep. Bill Garrard
 Rep. Jim Hill
 Rep. Deborah Kafoury
 Rep. Jeff Kruse
 Rep. Steve March
 Rep. Carolyn Tomei
 Rep. Kelley Wirth

STAFF PRESENT: **Matt Wingard, Committee Administrator**
 Patrick Brennan, Committee Assistant

MEASURE/ISSUES HEARD: **HB 2119 Public Hearing**
 HB 2116 Public Hearing
 HB 2121 Public Hearing

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

<u>TAPE/#</u>	<u>Speaker</u>	<u>Comments</u>
TAPE 13, A		
003	Chair Krummel	Calls the meeting to order at 8:41 a.m.
<u>HB 2119 PUBLIC HEARING</u>		
028	Matt Wingard	Committee Administrator. Gives a brief description of the bill. Says BH 2119 allows the Oregon Growth Account (OGA) Board to contract with management companies outside of Oregon, so long as those companies invest in Oregon companies an amount equal to OGA principal. Indicates that the measure also provides guidelines for investment policies.
040	Keith Barnes	OGA Board member. Testifies in support of HB 2119. Provides background information regarding OGA and why it was created. Comments on previous problems finding sufficient venture capital in Oregon. Says that in 1995 a transition team formed by Governor Kitzhaber set out to address both venture capital and debt financing, drafting legislation that created OGA. Explains that the account uses a small portion of lottery proceeds to make prudent investments in growth-oriented Oregon businesses that offer a risk-adjusted rate of return in the future.
094	Barnes	States that the proceeds returned to the account are redistributed to continue "priming the pump." Describes how the small amount of seed money is leveraged through investments by fund managers, and how it could be further leveraged in cooperation with venture capitalists in other states. Asserts that out-of-state venture capitalists are less likely to invest in Oregon in the absence of in-state investment. Mentions that the current investments will likely result in some liquidity by the end of the

		year. Suggests that passage of HB 2119 will enhance the program.
139	Randall Edwards	Oregon State Treasurer. Testifies in support of HB 2119 (EXHIBIT A) . Indicates that OGA was created to address a \$200 million gap between capital needs and available venture capital. Says the account is funded by an allocation of 10 percent of the Educational Endowment Fund, which in turn is funded by 15 percent of lottery proceeds. Indicates that the board has thus far entered into four partnerships, including with a firm specializing in early-stage information technology. Remarks that there is a desire to work with capital investment partners outside of Oregon, with the knowledge that the end goal is to increase investment solely in Oregon.
186	Rep. Tomei	Requests an explanation of mezzanine capital.
190	Linda Haglund	Deputy State Treasurer. Describes mezzanine capital as a source of loan funds that also share features resembling equity ownership.
210	Rep. Tomei	Asks whether stock will be sold back.
213	Haglund	Replies affirmatively, adding that they will be sold on the open market.
216	Edwards	Clarifies that such practices are typical of venture capital financing.
224	Rep. Tomei	Requests an example of the types of out-of-state venture capitalists who may be looking to invest in Oregon startups.
251	Haglund	Replies that while he cannot provide a direct example he can offer a parallel, referring to a Seattle-area firm that makes investments throughout the Pacific Northwest. Explains that the purpose of a general partner is to hire a group of people who then have a mandate to find investments on behalf of the state.
276	Edwards	Says the firms pool money then go out and invest it to make returns. Indicates that such firms are always on the lookout for startups that could someday be big money makers.
291	Rep. Garrard	Notes that the bill exempts the Oregon Growth Account (OGA) from certain laws.
300	Rep. Hill	Clarifies that the laws referred to by Rep. Garrard are related to public contracting, which would negate the need for a competitive bid process.
316	Edwards	Indicates that he is not certain as to how or if HB 2119 would affect public contracting.
334	Rep. Hill	Asks how much money has been invested so far.
337	Haglund	Replies that \$19 million has been invested through four partnerships. Explains that the partners need not commit the funds immediately. Says there is an additional \$10 million that is currently uncommitted. Describes the process by which partners assist companies along until stock is issued, after which money will begin to flow back to the account.
362	Rep. Hill	Requests an estimate as to how much of the \$19 million is actually being leveraged. Wonders if the account is more of a cottage industry by which capital is swapped in and out of partnerships.
375	Haglund	Reiterates that OGA is a percentage participant in the funds. Mentions that one partnership has raised \$20 million, of which \$1 million came from OGA, meaning that the \$1 million investment has been leveraged to \$20 million.

399	Rep. Hill	Remarks that since the bill only requires the amount contributed by OGA to be put back into Oregon, the \$1 million may or may not be leveraged back into Oregon, since there is no requirement to do so.
TAPE 14, A		
020	Edwards	Says that the primary focus has been on money allocated by OGA. Acknowledges that not all of the money in the partners' possession will come back to Oregon. Mentions that OGA is looking to expand its stable of managers.
033	Rep. Hill	Ponders whether allowing investments in Oregon through out-of-state firms might result in fewer investments in Oregon investment firms. Says it will be difficult to balance the measure so as not to lose the original intent of increasing investment in Oregon businesses.
047	Edwards	Vows to ensure as chair of OGA that its investments will not become diluted. Acknowledges Rep. Hill's concerns but assures that out-of-state partners will be good for the program, as there is currently a finite number of investment firms in Oregon.
060	Rep. March	Mentions that in typical limited partner relationships the manager of the funds receives a percentage of the funds. Wonders if this is the case with OGA funds as well.
066	Haglund	Replies affirmatively, adding that the typical percentage ranges from one to two percent for operation of the accounts. Mentions that the fee is returned in the event that profits are made through fund investments. Notes that profits generated are split 80-20, with the general partner (OGA) receiving 80 percent.
081	Rep. March	Asks whether general partners also generate profits.
086	Haglund	Says that limited partners sometimes make investments as well.
093	Rep. March	Asks whether out-of-state firms investing in Oregon businesses will be required to pay Oregon taxes on the profits they make through such investments.
104	Edwards	Replies that he is unsure about such cases of taxability. Assures that the goal of HB 2119 is to look for more ways to bring investment capital into Oregon, not to create tax shelters.
122	Rep. March	Requests that the Oregon Department of Revenue (ODR) be asked to comment on the taxability issue in the future.
125	Rep. Beck	Requests an explanation as to the purpose of Section 3 of the bill.
139	Edwards	Says Section 3 helps clarify how returns are generated and how they will be reinvested once they begin coming in.
145	Haglund	Comments on reinvestment.
149	Rep. Beck	Alerts committee to the need to ensure that the measure does not provide future state treasurers with the opportunity to step beyond their bounds. Suggests checking with staff for previous treasurers to ensure that the language is indeed benign.
161	Edwards	Insists that the state treasurer is held to high standards. Expresses hope that the money will be invested well and lead to strong gains. Says the language in Section 3 is boilerplate in regards to how money should be invested when it is earned as principal.
173	Rep. Wirth	Notes that no investments have yet been made into affordable housing. Inquires whether there will be guidelines as to which investment firms should be used, or whether preference will be given to in-state firms.
185	Haglund	Reiterates that the board, of which the Treasurer is the chair,

201	Rep. Wirth	makes all such decisions. Agrees that it is preferable to find firms with connections in Oregon with whom to invest. Requests a list of in-state partners with whom OGA has partnered.
204	Haglund	Lists Endeavor Capital and Warren Industries as examples.
209	Rep. Wirth	Asks if investments will be made throughout all areas of the state.
212	Edwards	Acknowledges that most firms are headquartered in the Portland area but that most operate statewide.
217	Rep. Wirth	Asks if there are written and established investment policies.
224	Edwards	Replies affirmatively. Comments that the exemptions Rep. Garrard referred to and says that the funds are part of a larger pool of limited investors.
239	Rep. Hill	Asks whether termination is to be part of the policy. Wonders how criteria are established that ensure that funds flow the way the measure intends them to.
270	Haglund	Says there is always the possibility of an asset management board moving in a direction contrary to statute, which is why policy needs to be set by OGA under the direction of the Treasurer.
294	Rep. Hill	Requests confirmation that the Governor appoints members of the board.
300	Edwards	Replies affirmatively. Reiterates that the measure seeks to enhance the effectiveness of OGA without changing its intent. Estimates that the impact of strategic investment may take as long as a decade to become apparent. Mentions that the measure might also provide some liquidity.
328	Chair Krummel	Asks whether such investments are already taking place and, if so, why is being done without statutory authority.
345	Edwards	Clarifies that the measure seeks to tighten existing statutory language. Reiterates that since the program is relatively new no earnings have yet been seen.
360	Haglund	Acknowledges that there are concerns regarding where money is coming from, where it is going, and what is done with returns once they come in.
388	Jim Craven	American Electronics Association (AEA). Acknowledges the need to bring an historical perspective to the issue. Mentions that AEA worked with former-Treasurer Jim Hill in establishing the account. Indicates that OGA is responsible for investing all funds delegated to it. Asserts that HB 2119 is consistent with the goal of leveraging venture capital funds into Oregon companies.
TAPE 13, B		
020	Craven	Submits that although there are many opportunities to invest through Oregon companies it is prudent to leave available as many opportunities as possible so as to find the best available investment.
030	Chair Krummel	Asks about the reference to the allocation of 10 percent of the Education Endowment Fund's 15 percent of lottery revenues.
034	Craven	Clarifies that the reference is not in the bill itself, but that it is in statute.
037	Chair Krummel	Solicits opinions as to whether the measure will give Oregon an advantage over other states with regard to recession protection.
045	Craven	Concurs that having the ability to invest more broadly is certainly an advantage, though not necessarily a protection from economic

downturn. Asserts that OGA has helped put Oregon back on the radar screen for investors. Says another factor has been the fact that Oregon has not suffered as a result of the collapse of many internet companies. Explains that most Oregon internet companies deal with hardware and software, as opposed to internet retail sales.

- 065 Rep. March Asks whether venture capitalists will come to Oregon as a result of the state providing investment capital.
- 068 Craven Responds that OGA plays a role, but that the existence of investment opportunities in Oregon is also an attraction.
- 086 Chair Krummel Closes the public hearing on HB 2119 and opens a public hearing on HB 2116.

HB 2116 PUBLIC HEARING

- 095 Matt Wingard Committee Administrator. Gives a brief description of the bill. Says the bill establishes a State Stabilization Fund, limited to five percent of total General Fund revenue. Outlines guidelines set by the measure regarding how, when, and for what purpose the fund could be tapped.
- 110 Randall Edwards Oregon State Treasurer. Testifies in support of HB 2116 **(EXHIBIT B)**. States that Oregon is one of five states without a rainy day fund. Says the tax base is overly sensitive to economic activity, which endangers public programs in the event of an economic slowdown. Explains that a stabilization fund will allow accumulation of funds over time to prepare for the contingency of an economic slowdown. Emphasizes the necessity of having a stabilization fund. Asserts that such a fund should be between 3-5 percent of the general fund balance. Remarks that the bill is statutory rather than constitutional, adding that such a fund will benefit the state's bond rating either way.
- 160 Edwards Reiterates that a rainy day fund will stabilize the state's bond rating and may even contribute to raising it to AAA status. Extols the benefits of a high bond rating. Comments that voters have the ability to sow economic confusion through the initiative process. Acknowledges that it will be difficult to decide how to fund the program and that it will likely take some time. Reiterates that nearly every other state has such a fund.
- 210 Rep. Kruse Agrees with the notion that a stabilization fund should be generated from general revenue. Asserts that it is unclear whether a five-percent stabilization fund will require budgets to be built upon 95 percent of projected revenue.
- 231 Edwards Leaves the construction of the fine details to the committee's discretion.
- 245 Rep. Kruse Repeats that the only proper way to create a rainy day fund is to incorporate it into the budgeting process.
- 253 Rep. Hill Expresses skepticism regarding the efficacy of the measure. Says that HB 2116 could be too easily circumvented in statutory form. Argues that without a constitutional component the bill has no teeth. Says it is unclear how limits on the use of the money might be set. Asserts that rather than laying responsibility on the legislature, the onus for cutting costs during an economic slowdown should be seated with the state agencies themselves.
- 300 Rep. Hill Agrees with Rep. Kruse's assertion that the fund, if created,

318 Edwards should be made part of the budgetary process. Suggests that the technical points of the measure are matters for the Joint Committee on Ways and Means to sort out. Warns that recessions typically come at inopportune times. Wonders how to prompt state agencies to perform self-governance. Reduces the issue to the question of whether the state should have a rainy day fund and argues that it should. Acknowledges the consensus that it would be preferable to make the measure constitutional but says it is less likely to get done in constitutional form.

352 Rep. Hill Says there is little doubt as to whether such a measure could be passed.

357 Rep. Kafoury Concludes that there is agreement that a stabilization fund is important but that it will be difficult to achieve consensus on the details. Mentions that there are several bills at various stages in the process that seek to create a rainy day fund.

370 Chair Krummel Explains that the purpose of this hearing was to float the issue to determine whether there is a sufficient level of support for the concept. Suggests that it might be a good idea to bring the various measures together for a single set of hearings.

385 Rep. Kafoury Comments that the technical complexity of establishing a rainy day fund is such that it would be beneficial to consider the different alternatives together.

TAPE 14, B

011 Gary Carlson Associated Oregon Industries (AOI). Mentions that AOI opposed a similar measure in 1997, which at the time would have been seeded a rainy day fund with “kicker” money. Asserts that restraint in budgeting has slipped in recent years, in that un-appropriated ending balances have slipped recently from two percent to one-half of one percent. Explains that an un-appropriated ending balance is, in effect a reserve and does not require a separate fund, only prudence and fiscal discipline. Remarks that if it is statutory the legislature can override the measure if need be. Acknowledges that any available pool of money is always open to attack. Reiterates the need for prudent budgeting. Expresses willingness to work with the committee on developing the concept into a workable model.

058 Danny Santos Governor’s Education Policy Office. Testifies to a position of neutrality on HB 2116 (**EXHIBIT C**). Indicates that the Governor would prefer a 10 percent allocation for a rainy day fund. Discusses some possible uses for such a fund, the trigger measure for using it, the role of the voters in the issue, the role of the agencies in budgeting, and where the funds should come from. Recommends that a work group be appointed to consider the entire range of rainy day fund proposals coming forward.

103 Rep. Wirth Inquires if and where essential services are defined in statute.

104 Santos Offers to provide the information to the committee in the future.

108 Chair Krummel Closes the public hearing on HB 2116 and opens a public hearing on HB 2121.

HB 2121 PUBLIC HEARING

110 Matt Wingard Committee Administrator. Provides a brief description of the bill. Says the measure allows some state agencies to designate bond trustees and appoint bond counsels. Indicates the measure eliminates bond capitalization requirements. States the measure authorizes continuous appropriation of funds to pay for public

130	Edwards	education and to service education lottery bonds. Mentions that HB 2121 applies only to bonds issued after January 1, 2002. Testifies regarding HB 2121 (EXHIBIT D). States that the measure corrects a technical problem. Mentions the measure corrects an omission from a 1997 bill by allowing DAS to pay debt service on lottery-backed bonds without an appropriation by the legislature each session.
155	Chuck Smith	Director of Debt Management, Oregon State Treasury. Points out a technical correction that should be made to the measure: <ul style="list-style-type: none"> • On page four, line two, the second deleted sentence should be retained
171	Rep. Hill	Asks whether the measure should have an emergency clause, as it will otherwise go into effect 1-1-02. Inquires why the measure does not merely provide blanket authority to appoint bond counsel.
188	C. Smith	Explains that the Treasurer appoints bond counsel. Suggests that the most efficient model would be to interview and select bond counsel with approval of treasurer, which would be allowed by HB 2121. Says the measure creates parity among all agencies.
209	Rep. March	Notes the provision that removes the bond capitalization period and asks what the purpose is of the removal.
218	C. Smith	Responds that because construction projects vary tremendously in length, and that some self-supporting projects nevertheless can take quite some time before they are capable of paying for themselves.
243	Rep. March	Remarks that the measure does not place any time limit, which would seem to allow for projects as long as 25 years.
248	C. Smith	Assures that a cap is not necessary, as the Treasurer will not set such limits. Asserts that giving the Treasurer authority and discretion is the best way to guarantee that projects can be tailored to fit specific projects.
261	Rep. Hill	Suggests that the language could be amended to provide some sort of limits without being overly restrictive.
277	Edwards	Suggests specific language with which to amend the measure: <ul style="list-style-type: none"> • On page 2, line 34, delete “or 18 months”
280	Rep. Hill	Concurs with the suggested language.
282	Edwards	Clarifies how the measure would read with the amendments.
292	Chair Krummel	Requests that Legislative Counsel draft the amendments.
307	Rep. Hill	Reiterates that the measure should be made effective upon passage.
311	Edwards	Agrees with adding an emergency clause.
315	Chair Krummel	Indicates that the bill will be brought back for further action once the amendments have been drafted. Adjourns the meeting at 10:25 a.m.

Submitted By,

Reviewed By,

Patrick Brennan,
Committee Assistant

Matt Wingard,
Committee Administrator

EXHIBIT SUMMARY

A – HB 2119, testimony, Randall Edwards, 2 pp.

B – HB 2116, testimony, Randall Edwards, 2 pp.

C – HB 2116, testimony, Danny Santos, 1 p.

D – HB 2121, testimony, Randall Edwards, 1 p.