

SENATE REVENUE COMMITTEE

JUNE 7, 2001 — 2:30 P.M. - HEARING ROOM A - STATE CAPITOL BUILDING

Members Present: Senator Ted Ferrioli, Chair

Senator Lee Beyer, Vice Chair

Senator Susan Castillo

Senator Tony Corcoran

Senator Gary George

Senator John Minnis

Senator Charles Starr

Staff: Paul Warner, Legislative Revenue Officer

Steve Meyer, Economist, Legislative Revenue Office

Carol Phillips, Committee Assistant

Witnesses: Randall Edwards, State Treasurer

TAPE 157, SIDE A

005 Chair Ferrioli Meeting called to order at 2:53 p.m.

OPENED WORK SESSION ON HJR 46

008 Steve Meyer Gave overview of HJR 46-A. Amends state constitution. Authorizes issuing state general obligation (G.O.) bonds up to _ of one percent of the statewide value of taxable property. Requires funds be used for financing preK-12 public school and Oregon Health & Science University capital costs. Restricts use to (1)

matching voter approved K-12 school general obligation bonds and (2) financing up to \$200 million (net) of OHSU capital costs.

Requires repayment as determined by the Legislative Assembly from (1) General Fund appropriations, (2) State Lottery proceeds or tobacco settlement, and (3) other revenue sources. Prohibits repayment from any state or local property taxes. Allows implementing legislation to carry out the constitutional provisions.

Submits the measure to voters at the May 2002 primary election.

- 027 Sen. Castillo Asked who proposed the (-A9) amendments.
- 028 Chair Ferrioli Responded that the Senate President's Office presented the (-A9)s. There is a strong conviction that K-12 schools, which are currently funded through local revenue sources, is one of the primary remaining connections among local schools, local school districts, local elected officials, and school financing. By providing a mechanism that further distances local school districts and local patrons from commitment to supporting their own school construction projects, it further distances them in the process from local control issues.
- 046 Vice Chair L. Beyer Asked the State Treasurer if the reason this bill was proposed by the Treasurer was to enable the K-12 system not to use state money to pay for school construction, but rather to provide a vehicle that small school districts could gain advantage of the state's bond rating and that they would have to pass local levies to create repayment streams.
- 052 Randall Edwards Responded that was correct. This would be set up to create a match; i.e. a local school district would still have to pass locally a school bond measure in order to receive any revenues from

the state to help them with the bonds they would be asking their voters to pay for. As a result of that, it would provide tax relief for local property taxpayers who pay 100% of those costs today. It would assist the school districts having a hard time for different reasons. This bill is designed for capital only, i.e. new buildings, remodeling, upgrading old buildings, etc.

Several questions and answers interspersed.

Explained that under current law, money to pay for school-related capital costs comes from the local taxpayers and not from other Oregon taxpayers outside the school districts. But the proposal would change that. The proposal would allow school districts to ask the state for funds to match district needs to pay for capital expenditures. Asking that the state be allowed to have this tool, which is the lowest cost tool for the state to finance itself, and enter into this partnership using G.O. bonds. The OHSU funding component of the proposal would save \$70 to \$80 million in interest using this system rather than tobacco settlement money.

088 Edwards

Further comments regarding this funding proposal and how the current system operates.

Continued discussion, with questions and answers interspersed.

108 Sen. Minnis

Asked the Treasurer if general obligation bonds are guaranteed by the state, to which the Treasurer replied they are. Further asked the Treasurer if it is not true that one of the factors involved in the state's bond rating and the ability to initiate a bond issue is the ability a state has in its constitution to levy a statewide property tax to back up those bonds. Asked if bond rating agencies rely on the ability of the state to eventually, if necessary, levy a statewide property tax to repay bonds?

118 Edwards Replied, "No." Stated this measure does not have a property tax to back the G.O. bonds. Markets do not require it, and other states do not have that backing provision. Regarding a timeline for activation of this program, authority must be granted to issue the G.O. bonds, and implementing law would have to come from the next legislature; so it would probably be 2004 before funds are available for use under this program.

Further questions and answers interspersed.

164 Chair Ferrioli Stated that he is not clear regarding the percentage of the match because it is not specified. Asked the Treasurer if that is a question to be answered by the next legislature.

173 Edwards Responded, "Technically, yes". In reviewing the implementing law there is a fund-matching range between 10% and 50%. School districts with tax bases in which it is more difficult to pass bond measures would get a higher matching rate than districts in urban areas.

180 Chair Ferrioli Asked if that would be determined by administrative rule through the office of the State Treasurer or subject to legislation.

181 Edwards Replied it would be subject to legislation. All this bill does is ask voters whether the state should enter into a partnership with school districts to enable the next legislative session to craft what it believes would be the most prudent way to use this new financial tool to help schools with their capital needs.

187 Chair Ferrioli Added that no revenue source of repayment is identified, so how is it intended for the bonds to be repaid?

189 Edwards Responded that the next legislature would

determine that, too, assuming the measure was sent to voters, and voters approved it. As State Treasurer, he looks at possible revenues out of the common school fund to help pay for the bonds. Reiterated there is no current tool to help meet the capital needs of school districts, so this measure should be considered. Ways to finance the proposal could be discussed over the interim. His role as State Treasurer is simply as an interface between the authority (probably the Department of Education) and the marketplace.

- 206 Chair Ferrioli Stated that clearly the purpose for the common school fund has been to support education. It could probably be expanded to include this proposal.
- 214 Chair Ferrioli Explained that those two questions point out the discomfort some committee members have expressed about creating this new tool. It appears to them to distance local school districts and local elected public officials from the obligation to pay for the bricks and mortar of physical buildings that they have so far been held responsible for. Agrees that many communities have deteriorating infrastructure and difficulty in passing local bond elections.
- 225 Chair Ferrioli Stated that an undetermined matching fund level and no clearly identified source of repayment for the bonding of \$200 million are the areas making some members uncomfortable. The OHSU \$200 million investment does have specified sources of money for payment of indebtedness, and the Senate President has suggested everyone seems comfortable with that proposal.
- 236 Vice Chair L. Beyer Understands why the Senate President may be uncomfortable with the proposal presented by the Treasurer, but pointed out that what is proposed is just constitutional framework language and very common. This is the type of proposal legislatures normally refer to voters. No action can be taken unless the legislature takes the next step. All this proposal does is

present the question to Oregon voters asking if they want to grant the legislature the authority to develop a program that would spell out matching requirements and repayment funds, etc. Feels this is the appropriate way to proceed.

- 248 Chair Ferrioli Agreed with the Vice Chair that this proposal is just a tool. But the point is that it represents a departure from over 100 years of direction in financing capital costs for school districts. This tool is precedent setting.
- 253 Vice Chair L. Beyer Reminded the Chair to keep in mind who gets to make that decision...the Oregon voters.
- 255 Vice Chair L. Beyer MOTION:

MOVES HJR 46 TO THE SENATE FLOOR WITH A DO PASS RECOMMENDATION.
- 257 Various General discussion regarding parliamentary procedure.
- 267 Chair Ferrioli Pointed out that the Legislative History regarding HJR 46 shows that the House Revenue Committee has held two public hearings on this measure.
- 268 Sen. Minnis MOTION:

MOVES TO SUBSTITUTE PREVIOUS MOTION. MOVES THE (-A9) AMENDMENTS TO HJR 46 BE ADOPTED.
- 271 Chair Ferrioli Stated that there is a motion to amend the previous motion and to adopt the (-A9) amendments to HJR 46.
- 277 Chair Ferrioli ROLL CALL VOTE: MOTION FAILS: 3 — 4
— 0

SENATORS VOTING AYE: MINNIS,
STARR, FERRIOLI

SENATORS VOTING NO: CASTILLO,
CORCORAN, GEORGE, L. BEYER

284 Chair Ferrioli Recessed meeting from 3:10 p.m. to 3:14 p.m.

286 Chair Ferrioli Adjourned meeting at 3:14 p.m.

Submitted by, Reviewed by,

Carol Phillips Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HJR 46, Senate President's Office, (-A9) amendments (CH/ps) 6/7/01, 1 pp.
2. HJR 46, Meyer, Staff Measure Summary, 1 pp.
3. HJR 46-A, Meyer, Revenue Impact Statement, 1 pp.
4. HJR 46-A, Meyer, Revenue Impact Statement, 1 pp.
5. HJR 46, Meyer, Fiscal Impact Statement, 1 pp.