

HOUSE COMMITTEE ON COMMERCE

May 12, 1999 Hearing Room 350

3:00 p.m. Tapes 55 - 57

MEMBERS PRESENT: Rep. Jim Hill, Chair

Rep. Ryan Deckert, Vice-Chair

Rep. Al King

Rep. Jerry Krummel

Rep. Bob Montgomery

Rep. Anitra Rasmussen

Rep. Diane Rosenbaum

Rep. Bill Witt

MEMBER EXCUSED: Rep. Mark Simmons

STAFF PRESENT: Jason Cody, Administrator

Annetta Mullins, Administrative Support

MEASURE/ISSUES HEARD: SB 402 ñ Public Hearing and Work Session

SB 403-A ñ Public Hearing and Work Session

SB 1083 ñ Public Hearing and Work Session

SB 142-A ñ 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.

TAPE/#	Speaker	Comments

TAPE 55, A

004	Chair Hill	Calls meeting to order at 3:00 p.m. and opens public hearing on SB 402
<u>SB 402 ñ PUBLIC HEARING</u>		
006	Jason Cody	Administrator. Explains SB 402.
020	Mark Huston	Manager, Business Finance, Oregon Economic Development Department (EDD). Submits and reads prepared statement in support of SB 402 (EXHIBIT A).
070	Huston	Continues presentation (EXHIBIT A, page 2).
086	Chair Hill	Asks if marketing business finance means EDD is helping the private sector find financing options or if it is restricted to municipalities, counties, cities and special districts.
094	Huston	Responds it is mostly targeted at assisting private business.
098	Chair Hill	Asks if Mr. Huston has an example of an eastern Oregon company hoping to locate in Hood River County that has benefited from this.
100	Huston	Responds he will provide a list of all the businesses in Hood River County that EDD has assisted. Explains assistance provided to a company that manufactures Mexican products.
111	Rep. Montgomery	Comments the company paid the loan back early.
114	Huston	Continues presentation (EXHIBIT A, page 2).
140	Chair Hill	Asks if the funds are diluted and whether people have been denied funds or whether additional opportunities are opened up.
143	Huston	Explains EDD has about \$12 million in exposure currently and about \$9 million in reserve funds. Feels they have sufficient funds to continue through the next biennium.
153	Huston	Continues presentation (EXHIBIT A, page 3).
176	Huston	Continues presentation (EXHIBIT A, page 4).

202	Huston	References the letter in the packet (EXHIBIT A, pages 6 and 7).
208	Rep. Witt	Asks what percentage of the businesses receiving loans have failed to comply with the terms of the loans.
214	Huston	Reviews letter included with his statement (EXHIBIT A, pages 6 and 7).
224	Rep. Krummel	Asks to whom they made a claim.
226	Huston	Explains a loan loss reserve program is set up in each participating bank. Explains process between the bank and EDD for control of the reserve account.
234	Chair Hill	Asks what percentage of the total funds goes to default.
239	Huston	Responds he will get specific numbers.
243	Rep. Witt	Asks how the losses compare to typical commercial lending.
250	Huston	Believes the legislature recognized there would be high risk for the entrepreneurial fund. The universe of companies is by definition a higher risk. Thinks the numbers are comparable to others across the country. It is high; 25 percent of the companies struggle or fail and 75 percent succeed.
274	Chair Hill	Asks if these people would not otherwise get loans.
275	Huston	Responds he thinks that can be said unequivocally.
273	Rep. Witt	Asks if the interest rate charged is significantly lower than a bank rate.
293	Huston	Explains that on the two guarantee programs, the state charges a fee in addition to the commercial rate. There is no low market rate feature. The Oregon Business Development Fund does have a below market rate feature and is limited to 40 percent of the loan. The finance committee, except for loans under \$50,000, reviews each loan. EDD has done research studies and had discussions with the companies and are fairly confident the loans are loans the banks would not make.
325	Rep. Deckert	Asks what the definition is of "emerging small business".
331	Huston	Comments he believes it is under \$300,000 in sales average for the last two years for non-construction and \$1 million in sales for construction firms.

338	Rep. King	Comments a higher interest rate could possibly consume the business. Adds he would think this is the last stop and asks if that is true.
355	Huston	Agrees. Thinks they would pay a higher rate if they had to. Previous legislative committees have said this is part of economic development and incentives to businesses that are growing and creating jobs.
368	Rep. Rosenbaum	Questions clarity of the language in Section 4, the credit enhancement program. Thinks the intention is to broaden the definition of a qualified business to include any business in a distressed area. Comments it could be read that if you are located within a distressed area, you would not fall into the definition of a qualified business.
388	Huston	Responds it is the intent the exception is related to selling goods or services in markets for which national or international competition exists.
401	Rep. Rosenbaum	Asks that staff check with Legislative Counsel to make sure the language does what it is trying to do.
389	Rep. Witt	Thinks "that" shifts it to the succeeding clause. Thinks it is clear "except when located within a distressed area" relates "to selling goods or services in markets", but not the number of employees.
414	Chair Hill	Closes public hearing and opens work session on SB 402.
<u>SB 402 n WORK SESSION</u>		
420	Rep. Montgomery	MOTION: Moves SB 402 to the floor with a DO PASS recommendation.
		VOTE: 7-1-1 AYE: 7 - Deckert, King, Krummel, Montgomery, Rasmussen, Rosenbaum, Hill NAY: 1 - Witt EXCUSED: 1 - Simmons
		Chair Hill The motion CARRIES.
		REP. RASMUSSEN will lead discussion on the Floor.

TAPE 56, A

SB 403-Añ PUBLIC HEARING

002	Chair Hill	Opens public hearing on SB 403-A
003	Cody	Explains SB 403-A.
015	Doris Penwell	Economic Development Department. Submits and summarizes a prepared statement in support of SB 403-A (EXHIBIT B) .
043	Chair Hill	Closes the public hearing and opens work session on SB 403-A.

SB 403-A ñ WORK SESSION

044	Rep. Montgomery	MOTION: Moves SB 403A to the floor with a DO PASS recommendation.
047		VOTE: 8-0-1 EXCUSED: 1 - Rep. Simmons
	Chair Hill	Hearing no objection, declares the motion CARRIED. REP. KING will lead discussion on the floor.
050	Chair Hill	Opens public hearing on SB 1083.

SB 1083 ñ PUBLIC HEARING

053	Cody	Explains SB 1083.
064	Mike Grainey	Assistant Director, Office of Energy. Introduces David Stewart Smith, Administrator, Energy Resources Division and staff to the Energy Facility Siting Council. Submits a prepared statement and section by section analysis of SB 1083. Paraphrases prepared statement in support of SB 1083 (EXHIBIT C) .
096	Tom Berry	Northwest Natural. Introduces Margaret Kirkpatrick, Stoll Reeves. Comments their testimony would be redundant. They support the bill.

108	Chair Hill	Closes public hearing and opens work session on SB 1083.
<u>SB 1083 ñ WORK SESSION</u>		
109	Rep. Montgomery	MOTION: Moves SB 1083 to the floor with a DO PASS recommendation.
112		VOTE: 8-0-1 EXCUSED: 1 - Rep. Simmons
	Chair Hill	Hearing no objection, declares the motion CARRIED. REP. RASMUSSEN will lead discussion on the floor.
128	Chair Hill	Advises members that the committee will need to recess at 4:00 p.m. for the purpose of checking in for the floor session.
		NOTE: REP. KRUMMEL IS ACTING CHAIR FOR THE REMAINDER OF THIS MEETING.
127	Chair Krummel	Opens the public hearing on SB 142-A.
<u>SB 142-A ñ PUBLIC HEARING</u>		
139	Rep. Montgomery	Asks if there will be ample time for the public to testify after the amendments have been submitted.
148	Chair Krummel	Responds he would hope there would be time for public input on any proposed amendments.
151	Catherine S. Britain	Program Manager, Rodeo Net. Submits and reads prepared statement in support of SB 142-A on behalf of health care interests (EXHIBIT D) .
200	Britain	Continues presentation (EXHIBIT D) .
240	Chair Krummel	Asks what SB 142-A will do for the health care industry.

243	Britain	Responds it will allow the state to build infrastructure where it is needed and eliminate the financial hardships on organizations paying for access.
265	Rep. Hill	Advises that SB 142-A does not do anything about the tariff rates. The kind of infrastructure mentioned by Ms. Britain may or may not be kind of infrastructure that will be installed.
289	Britain	Comments it does prevent having to pay the tariff rate and having to bare the full bore for the line.
298	Britain	Continues presentation.
349	Rep. Hill	Asks if anyone in the consortium applied for federal dollars.
357	Britain	Responds they encouraged those who qualified to apply. Rodeo Net did not apply because Rodeo Net is using Oregon EdNet currently and as the rules are written those shared networks are not eligible for subsidy. Felt the collaboration with Oregon EdNet was more valuable. Adds that there have been 13 applications for subsidy from Oregon health care providers. They will know if the funds will be released in May.
377	Chair Krummel	Asks from whom Lakeview receives advice if they are linked to St. Charles in Bend.
392	Britain	Explains that if special care is needed, they have to be linked with the tertiary care center.
TAPE 55, B		
015	Sherm Radtke	Economic Development Director, Lake County. Submits prepared statement and copies of article "High Tech In Rural Oregon" from <u>Oregon Labor Trends</u> , May 1999 (EXHIBIT E). Paraphrases prepared statement in support of SB 142-A.
056	Rep. Hill	Asks what kind of reaction they have received from CenturyTel on better access.
064	Radtke	Responds that CenturyTel has told them they have digital capability in Lakeview. Adds that the data companies will not give them a first look without fiber optics.
074	Radtke	Continues presentation (EXHIBIT E, page 2).
095	Chair Krummel	Recesses meeting at 4:00 p.m. to allow members to check in for the House Floor Session.

095	Chair Hill	Reconvenes the meeting at 4:18 p.m.
096	Radtke	Continues presentation (EXHIBIT E, page 2).
115	Radtke	Continues presentation (EXHIBIT E, page 3).
174	Radtke	Reviews conclusion in article in <u>Oregon Labor Trends</u> (EXHIBIT E, page 8).
175	Radtke	Continues presentation (EXHIBIT E, page 4).
210	Radtke	Asks members to review the <u>Oregon Labor Trends</u> .
234	Rep. Hill	Asks if CenturyTel is willing to invest to extend fiber optics to Lakeview if SB 142 becomes law.
240	Radtke	Responds that CenturyTel has made a commitment to connect Lakeview with Bly this summer. Adds that it is their understanding that CenturyTel will then extend the fiber from Bly to Malin next year. Adds that they need a loop to also connect with Burns.
257	Tom Cook	Director, Oregon Public Education Network. Explains their organization provides telecommunications connectivity, internet access and teacher resources and training materials to schools across Oregon. Submits testimony for Curt Pederson, Associate Provost, Oregon State University (EXHIBIT F) and Joanne Hugi, Director, Computing Center, University of Oregon (EXHIBIT G).
267	Cook	Explains status of education facilities with telecommunication capabilities. Believes though distance education program they will be able to provide the kinds of things that are needed in the classroom.
338	Cook	Supports concept of SB 142 or modification of it.
341	Rep. Hill	Asks what percentage or how many schools applied for federal E rate dollars.
346	Cook	Responds he will provide the information to the committee.
351	Rep. Montgomery	Asks what happens to the really rural areas.
361	Radtke	Responds the real challenge will be to get to the real remote areas. Explains anticipated connections.
365	Britain	Comments the primary goal in drafting the bill was to reach those remote kinds

		of places. It is hoped the moneys from SB 142-A can provide the infrastructure to the communities.
423	Schelly Jensen	Regulatory and Governmental Affairs Manager, GTE. Submits and highlights prepared statement (EXHIBIT H) .
TAPE 56, B		
017	Jensen	Continues presentation of prepared statement (EXHIBIT H) .
048	Rep. Hill	Asks if GTE's obligation to serve requires an incumbent to look at making sure the communities they are obligated to serve are interconnected to the rest of the world.
071	Rep. Hill	Asks if SB 142-A is a vehicle that allows opportunities to occur in a better way.
075	Jensen	Explains that Coos Bay has fiber all the way to Roseburg. Adds that the problem they ran into in La Grande is GTE did not own the fiber that went through La Grande. GTE, with U. S. West, did look at putting fiber in between Pendleton and La Grande but because of the geographic area it was prohibitively expensive. It was more cost effective to help an inter exchange carrier. Anyone going in will want to see a return on their investment
103	Jensen	Comments that GTE supports the voluntary aspects of SB 142-A. Thinks there needs to be a closer linkage between the implementation of universal service and price caps, and there needs to be rate rebalancing at the same time universal service is implemented.
115	Rep. Hill	Asks if she is talking about rate rebalancing as it related to basic telephone service.
121	Jensen	Responds it would be everything, not just rates.
	Jensen	Comments GTE is interested in working with committee and other stakeholders to come to a solution for rural infrastructure development and move toward a more deregulated environment, but believes there could be a few improvements to SB 142-A..
122	Bruce Shaull	Sprint. Submits and presents a prepared statement in support of SB 142-A (EXHIBIT I) .
161	Rep. Hill	Clarifies that when Mr. Shaull says "public" it is a public switch network, not that government should be building a telecommunications network.
173	Shaull	Responds affirmatively.

174	Shaul	Continues presentation of statement (EXHIBIT I) .
188	Larry Huss	Vice President for Public Policy, U S West in Oregon. Submits a prepared statement (EXHIBIT J) . Comments on small community during childhood years and changes in the community today.
230	Huss	Summarizes prepared statement (EXHIBIT J) .
280	Huss	Continues presentation.
335	Rep. Hill	Comments that in the 1990s, U S West went to the PUC and applied for the A4 regulation that increased their ability to make profits and flexibility. U S West made a business decision to cut people and as a result U S West service quality plummeted. Asks how do legislators trust U S West when they say they will invest back in the network and service level and quality will not go down.
357	Huss	Responds he thinks Rep. Hill's sequence of events are accurate but not the cause and effects. U S west decided to cut people and the service quality suffered.
340	Huss	Explains changes at U S West causing a decline in service quality.
400		Continues comments on changes to improve service.
467		Adds that U S West is coming back and is on top of the problems.
TAPE 57, A		
031	Rep. Hill	Asks how he can justify that companies will be held accountable for their service level.
040	Huss	Responds he thinks consumers are protected with the price caps. Under provisions of the bill prices can only decrease, depending on what is taken from the USF. Most services that have been providing the support are going to go down proportionately with whatever withdrawals are taken from the USF. The other part of the bill does nothing to the authority of the PUC over service quality; the PUC retains their authority. The bill raises the finding level that is applicable and creates additional incentive. Adds that if SB 142-A is defeated, the PUC would have the same authority.
057	Rep. Hill	Asks if U S west is planning to deploy DSL in all regions.
059	Huss	Responds U S West is in the process of deploying DSL. Cannot judge cost of DSL in the future. Assume the costs are declining for switching the electronic elements, but not for the whole of the network. As that goes down, it makes a greater business case of deploying DSL. Not sure what the demand is or how

		suppliers are doing.
107	Rep. King	Comments that quality of service is his main concern. Wonders how to get back to quality of service.
139	Huss	Responds there was an article in <u>Business Journal</u> by a reporter who went out to find the problems around service quality. He examined service quality standards as well as performance across the United States by most of the major providers and found U S West was in the middle of the pack. Does not want to walk away saying they have service quality solved, because if they let up, they will fall back.
188	Rep. King	Asks if Mr. Huss feels SB 142-A is fair.
186	Huss	Responds he thinks SB 142-A provides greater access to the funds they need to make the investments they need to make. Problem is knowing where the growth is going to be and when it will occur. Believes the right incentives are in SB 142-A. There is an increased opportunity to make and keep profits. There are funds that would not otherwise be spent because one cannot make a business case for it. The PUC's authority over service quality standards remains in tact and the fines go up.
240	Rep. Deckert	Asks Mr. Huss why consumer groups and residential users seem to be so opposed.
251	Huss	Comments he thinks there is a psychology of consumers that they don't have choices and get angry with their providers and are distrustful.
		Understands that the Senate bill does not have the price caps on services other than residential services. While he believes that is the right economic thing to do, understands in the political climate it is probably not a wise thing to do. Would encourage the committee to put the price caps back on as proposed in the original Senate bill and removed by the Senate. Does not know why the groups are worried because they get stability and the USF. Absent something like that we will look like other markets that have been opened to competition. Competition has driven prices toward their costs and the net result is rural America has gone without the benefit of those services because the cost of providing them has gotten so great that they cannot afford to pay them.
271	Rep. Deckert	Comments one of the concerns he has heard is in terms of the 90/10 breakdown, that it is not a strategic enough process and that perhaps the existing projects would be used with the 90/10 breakdown. Asks if we are not thinking globally enough in Oregon about how we would strategically want to get the rural build out.
296	Huss	Responds he sometimes thinks people look at the legislation not for what it intends to do, but for what motives could be created. Not sure language in the bill is tight enough to ensure that the infrastructure build out is for incremental construction. That is the intent of U S West. If the language needs to be tighter,

		tighten it. We are talking about the kind of infrastructure build out for which there is not a business case. If there were a business case, then U S Wet would build it or GTE or one of the other 50 companies would build it.
311	Huss	We are talking about build out where there is no economic justification. The purpose of the citizen panel is to do the evaluation and try to make the prioritization. Hopefully they will take some time to try to look across Oregon and make decisions about what is best in an overall network approach. Hopefully they will look at the enterprise network and realize this is a compliment, not a competitor. Does not think government should try to engineer what the network build out should look like.
331	Rep. Hill	Asks how to bring reality back into the process so competitors have a fair and equitable opportunity to interconnect so consumers will have a greater choice.
355	Huss	Responds that this bill does nothing to disturb the responsibility or authority of the PUC under the Telecommunications Act. Whether this passes or doesn't, the ability to achieve those goals existed yesterday and will exist tomorrow. Comments on players and complainers.
376	Rep. Rosenbaum	Comments one idea is setting a minimum threshold of service quality standards that would have to be met before providers could get out from under rate of return.
383	Huss	Responds that he does not agree with that. Agrees that the PUC should engage in creation of minimal service standards. The service standards the PUC has adopted have been portrayed as targets. Thinks commission has administered the rules in that fashion. The PUC watches for trends and ask the companies what you are going to do about it. The idea of making minimum standards and targets, which are two different things, and giving the PUC the authority to fine below the minimum standards and require attention to plans to go from the minimum standards up toward the target is something that appeals to him, but does not think it should be a precondition.
421	Chair Krummel	Announces that on Monday his intention would be to call the consumer panel and follow up with the competitor panel and to open up testimony, and to go into a work session on Friday of next week.
428	Chair Krummel	Closes public hearing on SB 142-A and adjourns meeting at 5:32 p.m.

Submitted By, Reviewed By,

Annetta Mullins, Jason Cody,

EXHIBIT SUMMARY

A ñ SB 402, prepared statement, Mark Huston, 7 pp

B ñ SB 403, prepared statement, Doris Penwell, 2 pp

C ñ SB 1083, prepared statement, Mike Grainey, 4 pp

D ñ SB 142, prepared statement, Catherine Britain, 3 pp

E ñ SB 142, prepared statement, Sherm Radtke, 8 pp

F ñ SB 142, prepared statement, Curt Peterson by Tom Cook, 2 pp

G ñ SB 142, prepared statement, Joanne Hugi by Tom Cook, 3 pp

H ñ SB 142, prepared statement, Schelly Jensen, 3 pp

I ñ SB 142, prepared statement, Bruce Shaull, 1 p

J ñ SB 142, prepared statement, Larry Huss, 5 pp