

SENATE COMMITTEE ON GENERAL GOVERNMENT

February 9, 1999 Hearing Room C

3:00 p.m. Tapes 16 - 17

MEMBERS PRESENT: Sen. Verne Duncan, Chair

Sen. Cliff Trow, Vice-Chair

Sen. John Lim

Sen. Frank Shields

MEMBERS ABSENT: Sen. Marilyn Shannon

STAFF PRESENT: Marjorie Taylor, Administrator

Patrick Brennan, Administrative Support

MEASURE/ISSUES HEARD: Overview of the Oregon State Treasury

SB 188 Public Hearing and Work Session

SB 189 Public Hearing and Work Session

SB 193 Public Hearing and Work Session

SB 200 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 16, A		
003	Chair Duncan	Calls meeting to order at 3:08 p.m.
<u>OVERVIEW OF THE OREGON STATE TREASURY</u>		

010	Rollie Wisbrock	Chief of Staff, Oregon State Treasury. Gives an overview of Treasury functions and their relation to the various bills in front of the committee (EXHIBIT A). States that the Treasurer is the chief financial officer of the State of Oregon.
035	Chair Duncan	Asks if the State Treasurer was the chief budget officer at any time in the past.
042	Wisbrock	Replies that he does not know. Says that the Treasurer was previously the chief financial officer. Adds that at one point the Treasury building housed the accounts, which indicates that the Treasurer was probably the chief budget officer at the time. Discusses the investment function of the Treasury and the funds for which it is responsible.
070	Wisbrock	States that Oregon has a centralized investment process. Says that the centralization provides the control and consistency that the Treasury was designed to provide. Mentions that centralized debt management began during the 1980s. Says that debt has been reduced in Oregon by about \$3 billion since 1986 through prudent management.
110	Wisbrock	Says that the Finance Division of the Treasury acts as the bank for the State of Oregon. Says that the Finance Division deals with the latest systems in banking to insure that Oregon is capable of dealing with its private counterparts worldwide. Discusses the financial infrastructure of Oregon. Discusses the entities with whom the Treasury does business. Discusses the various boards and committees overseen by the Treasury.
156	Sen. Shields	Asks for an explanation of the debt reduction Wisbrock previously referred to. States that \$3 billion is a very large reduction.
161	Wisbrock	Replies that some of the reasons were a "superb" staff, excellent management, legislative oversight, good fortune, and the centralized structure. Says that stability has allowed the state to maintain a steadiness of debt. Adds that the debt load should remain constant, but probably will not decrease further.
190	Sen. Shields	Says that the debt reduction is relatively unknown to the public. Asks if the "stability" of the debt means that it will remain at about \$5 billion.
195	Wisbrock	Says that the debt will remain constant, proportional to the budget. Refers to the State Debt Policy Commission (SDPC). Describes the SDPC and mentions that it makes projections three biennia into the future.
222	Sen. Shields	Says that the reduction and stability of debt is something that the general public should be made aware of. Says that it is important for citizens to know that Oregon is not "constantly sinking further into debt." Asks if that "message" makes it to the general public.
231	Wisbrock	Says that it usually does not. Says that there are resources to expand the debt if necessary, which is the primary duty of the Treasury.

243	Chair Duncan	Says that government, like businesses, desire to have good lines of credit.
245	Sen. Trow	Refers to the debt crisis of the Goldschmidt administration compared to the debt of the Veteransí Loan program, in which \$100 million was taken from the General Fund.
253	Sen. Shields	Asks if the \$100 million was ever paid back.
257	Wisbrock	Mentions that the debt crisis that Sen. Trow referred to was caused, in part, due to the lack of centralized authority at the time. States that maintaining the state credit rating is one of the primary duties of the Treasury. States that the state currently has an AA rating, which is very good.
272	Sen. Lim	Says that, if possible, the state should seek to improve the credit rating beyond AA, since to do so could lower interest rates.
282	Wisbrock	Mentions that the Treasury has asked credit rating agencies how Oregon could improve its rating. Says that they were told that the volatility created by the initiative process in Oregon is a problem, as well as the lack of a budget stabilization fund that could be relied upon in the case of unforeseen circumstances.
303	Chair Duncan	Says that a scenario could be run to discern the fiscal impact of a higher credit rating.
311	Wisbrock	Says that the difference between an AAA rating and an AA rating is roughly \$400 million over the life of the debt.
315	Chair Duncan	Asks if Wisbrock is implying that the current initiative process and lack of stabilization fund is costing the state \$400 million.
318	Sen. Shields	Asks for a time frame in regards to the \$400 million Wisbrock referred to.
319	Wisbrock	Replies that the benefits of improving to AAA rating would be a savings of "hundreds of millions of dollars." States that the biggest barrier to improving the rating is the lack of a stabilization fund. Says that Oregon is one of four states that lack such a fund.
340	Sen. Trow	States that the budgetary process usually has about \$500 million in ending balance which is transferred into a beginning balance for the next biennium. Asks if that money is considered as a fallback fund by those who determine credit ratings.
343	Wisbrock	Says that there have been strong ending balances over the past three biennia.

344	Sen. Trow	Adds that during his time in the legislature there has been only one instance where there was no ending balance.
346	Wisbrock	Replies that rating firms do not count on that balance being reliable. They believe that states will spend the ending balance, so that it would not be available to serve as a stabilization fund. Says that money needs to be set aside and left untouched in the event that the ending balance is not there. Says that some states require an ending balance of a certain percentage to serve as a stabilization fund.
362	Sen. Lim	Says that the Treasury has posted legislation regarding such a "rainy day fund" and that the Senate Committee on Trade and Economic Development is currently discussing the issue.
375	Sen. Shields	Asks how long it would take to pay for the stabilization fund, with the savings that the resulting improved credit rating would provide.
383	Wisbrock	Replies that it is difficult to discern and would involve a complex analysis of individual agency budgets.
392	Sen. Shields	States that if potential savings could be documented it would help to make a case for budgeting the necessary funds for the creation of a stabilization fund.
395	Sen. Trow	Says that the credit rating firms have not guaranteed an improved rating in the event that Oregon creates a stabilization fund, but only hinted that such a fund would increase the likelihood of an improved rating. Questions where the funds for such a fund would be taken from in the current budget.
TAPE 17, A		
004	Wisbrock	Discusses the new tax structure, in which support for schools has been switched from property tax to income tax, which is volatile. States that the tax structure is another point against an improved credit rating.
009	Sen. Trow	Mentions that the "tax kicker" that has been given back to the public could be placed into a stabilization fund.
012	Sen. Lim	Mentions the \$2 billion of debt for the Public Employees Retirement System (PERS).
015	Chair Duncan	Opens a public hearing on SB 188.
<u>SB 188 PUBLIC HEARING</u>		
029	Rollie Wisbrock	Chief of Staff, Oregon State Treasury. Testifies in favor of SB 188 (EXHIBIT B). States that the bill is a technical change which addresses issues related to the

		Oregon Growth Account (OGA). Mentions that the OGA was created in 1995 in order to invest in Oregon venture capital opportunities. States that the OGA was created out of the Educational Endowment Fund (EEF) because, unlike the PERS fund, it has few constraints on location and size of investments. Says that investments must not consider social criteria but, rather, must focus solely on potential investment returns.
067	Sen. Trow	Asks how the transactions between the EEF and the OGA occur.
070	Wisbrock	Replies that the OGA is given authority over a fraction of the EEF.
078	Sen. Trow	Says that the EEF is not invested solely in education, but also in other types of investments.
082	Wisbrock	Concurs with Sen. Trow's statement. Says that the EEF fund invests in bonds and equities, and that the principle is not touched, but leveraged in stocks and equities, rather than in education.
092	Sen. Trow	States that the income from the EEF was to go to education grant programs.
094	Wisbrock	Concurs with Sen. Trow's statement. Says that the OGA was managed by the Oregon Investment Council (OIC), who realized that the account should be aligned with the treasurer (HB 2011, 1997). Says that the fund has independent oversight and does business under the same guidelines as the OIC. Says that SB 188 allows the OGA to operate as it would have under the OIC. States that the need for confidentiality is the key issue that SB 188 addresses.
125	Sen. Trow	Asks why it was necessary to create the OGA when the OIC was already in existence.
129	Wisbrock	Replies that the OIC was initially charged with the duties currently granted to the OGA, but that they felt that it interfered with the larger duties of overseeing PERS and the State Accident Insurance Fund (SAIF).
133	Sen. Trow	States that the OGA primarily makes investments within Oregon, while the OIC is more stable and more global in its investment strategy.
136	Wisbrock	Concurs with Sen. Trow's statement and says that was the primary reason for the creation of the OGA.
141	Chair Duncan	Asks if there is any opposition to SB 188.
143	Wisbrock	Replies that there is no opposition.
147	Cynthia Byrnes	Representative, Office of the Oregon Attorney General. States that all of the

		changes made by SB 188 are intended to "make the fit better" between the OGA and the EEF.
153	Sen. Trow	Asks if any of the provisions are controversial.
155	Byrnes	Says that the bill is simply clarification of details.
160	Sen. Lim	Asks why confidentiality is necessary.
163	Wisbrock	Replies that businesses cannot operate under the same sunshine laws under which government normally operates in Oregon. Says that the potential for disclosure of sensitive materials would dissuade businesses from participating in the OGA investment.
191	Sen. Trow	Mentions the Oregon Research and Technology Development Fund (ORTDF), which also does venture capital investment. Asks for a description of the relationship between it and the OGA.
194	Wisbrock	Says that the investment is similar in that it is venture capital, but different in that the OGA is not involved in start-up investment.
201	Chair Duncan	Mentions that the ORTDF invests in 40-50 businesses.
205	Sen. Trow	Asks if it would make sense to combine the two.
206	Wisbrock	Replies that the possibility of combining them was discussed. Says that it was determined that the ORTDF would probably halt seed-capital investment if the two were combined. Says that the OGA focuses on established businesses.
215	Sen. Trow	Asks if the money could be channeled from the ORTDF to the OGA.
219	Wisbrock	Replies that the ORTDF does not have all of their money loaned out yet. Says that keeping the two organizations separate allows space between the start-up investment and that which would come later, through the OGA.
244	Chair Duncan	Says that the division between the ORTDF and the OGA seems to make sense.
252	Sen. Lim	Asks if the confidentiality issue being discussed refers to the business records or to the individuals' records within the business.
260	Byrnes	Replies that it refers to the records of the business, such as the investors, the financial status, and possible trade secrets.

270	Chair Duncan	Clarifies that it is no different than the way other investment agencies currently operate.
273	Byrnes	Concurs with the chair's statement and states that the language in the bill is identical to existing statutes as they relate to other programs.
287	Sen. Lim	States that the information supplied under a confidentiality agreement would be open to review by the OGA but not to the public.
295	Chair Duncan	Closes the public hearing on SB 188 and opens a public hearing on SB 189.
<u>SB 189 PUBLIC HEARING</u>		
301	Rollie Wisbrock	Chief of Staff, Oregon State Treasury. Testifies in support of SB 189 (EXHIBIT C). States that the bill merely removes "remnant of language" that would require reporting of OGA status by the OIC. States that the OGA now reports to the Senate Committee on Trade and Economic Development.
324	Cynthia Byrnes	Representative, Office of the Oregon Attorney General. States that the removed language dealt with policy development by the OIC, of which the OGA now has control.
340	Chair Duncan	Closes the public hearing on SB 189 and opens a public hearing on SB 193.
<u>SB 193 PUBLIC HEARING</u>		
352	Darren Bond	Director of Finance, Oregon State Treasury. Testifies in support of SB 193 (EXHIBIT D). Mentions that the bill is strictly a technical, housecleaning measure that removes obsolete references found through the interim, as well as clarifies certain terms.
404	Chair Duncan	Asks if the support money to school districts is transferred electronically.
TAPE 16, B		
003	Bond	Replies that it is.
010	Chair Duncan	Comments that the old practice of hand delivery allowed creative use of interest.
012	Sen. Trow	Asks if there is any opposition to the bill.
013	Bond	Replies that he knows of no opposition.

014	Chair Duncan	Closes the public hearing on SB 193 and opens a work session on SB 188.
<u>SB 188 WORK SESSION</u>		
020	Sen. Trow	MOTION: Moves SB 188 to the floor with a DO PASS recommendation.
023		VOTE: 4-0-1 AYE: In a roll call vote, all members present vote Aye. EXCUSED: 1 ñ Shannon
	Chair Duncan	The motion CARRIES. SEN. TROW will lead discussion on the floor.
028	Chair Duncan	Closes the work session on SB 188 and opens a work session on SB 189.
<u>SB 189 WORK SESSION</u>		
031	Sen. Trow	MOTION: Moves SB 189 to the floor with a DO PASS recommendation.
033		VOTE: 4-0-1 AYE: In a roll call vote, all members present vote Aye. EXCUSED: 1 ñ Shannon
	Chair Duncan	The motion CARRIES. SEN. SHIELDS will lead discussion on the floor.
037	Chair Duncan	Closes the work session on SB 189 and opens a work session on SB 193.
<u>SB 193 WORK SESSION</u>		

040	Sen. Lim	MOTION: Moves SB 193 to the floor with a DO PASS recommendation.
042		VOTE: 4-0 AYE: In a roll call vote, all members present vote Aye. EXCUSED: 1 n Shannon
	Chair Duncan	The motion CARRIES. SEN. LIM will lead discussion on the floor.
052	Chair Duncan	Closes the work session on SB 193 and opens a public hearing on SB 200.
<u>SB 200 PUBLIC HEARING</u>		
055	Rollie Wisbrock	Chief of Staff, Oregon State Treasury. Mentions that SB 200 deals with the ability of the legislature to use lottery debt funds.
060	Charles Smith	Director, Debt Management Division, Oregon State Treasury. Testifies in support of SB 200 (EXHIBIT E). Says that the bill would allow the state to make prudent use of lottery bonds. States that the alternative to passage of SB 200 is a wide variety of bills vying for lottery funds in conflict with each other. States that there are a number of amendments to SB 200 that are still pending within Legislative Counsel.
096	Chair Duncan	Asks if the bill deals with uses for bond funds stemming from initiatives.
101	Smith	Replies that the bill does not consider that and says that it simply provides a uniform structure for authorizing lottery bonds. States that the current system is made up of numerous differing methods of access to lottery funds that should be placed under a "uniform issuance umbrella."
113	Chair Duncan	Refers to park bonds and asks if they would simply need to be consistent with other bond issuance under SB 200.
118	Smith	Replies that the chair's statement is correct.
123	Sen. Trow	States that SB 200 appears to be merely a statutory change which could be changed by the legislature or the public through the initiative process. Asks Smith if there is a deterrent to such changes taking place in the future.

128	Cynthia Byrnes	Representative, Office of the Oregon Attorney General. Replies that a change could be made in the future, but that the existing framework would make the process smoother.
133	Sen. Trow	Asks if the framework set out in the bill is really "the best."
138	Byrnes	Replies that it would be the only framework for managing bonds.
142	Sen. Lim	Asks for clarification regarding the conflicts in issuing bonds that Smith referred to.
145	Smith	Offers an example of competing claims for lottery revenue. Describes the conflict that arises when one bill has a higher claim to lottery dollars.
162	Sen. Lim	Asks for the total amount of bonds currently backed by the lottery and also asks for a breakdown of the total into categories.
165	Smith	Replies that the total value of bonds backed by the lottery is approximately \$260 million, broken down as follows: <ul style="list-style-type: none"> • \$150 million for K-12 capital grants to school districts • \$80 million for west-side light rail • \$7 million for water (which receives matching federal dollars) • \$18-20 million for parks
173	Sen. Lim	Refers to the parks funds mandated by Measure 66. Asks what level would be comfortable regarding funds from the lottery.
182	Smith	Replies that the State Debt Policy Advisory Commission (SDPAC) published a report stating that the maximum sustainable level of lottery bonds would be about \$500 million.
193	Sen. Trow	Mentions that the existing \$260 million is serviced and paid back as the first claim on lottery dollars. States that, as lottery funds are increasingly relied upon, a level of permanency is given to the lottery because the bonds will fail without it. States that the bonds will need to be serviced even if the lottery program declines or disappears. Asks if SB 200 will make it easier to issue lottery bonds. Mentions that the spending of lottery money does not require public support.
221	Wisbrock	Replies that SB 200 is not designed to make using lottery bonds easier, but rather safer.
226	Sen. Trow	Reiterates that the process described in SB 430 would not require public support.
228	Wisbrock	Concurs and says that it is not currently necessary to have a mandate from the public, especially by making it safer to use lottery funds.

241	Sen. Shields	States that the lottery bond issue that was put to the voters during the 1997 Session was done by choice, not by mandate.
250	Wisbrock	Concurs with Sen. Shields statement and states that the option to do so is retained by SB 200.
253	Sen. Shields	Asks for clarification on the \$500 million ceiling on lottery bonds recommended by the SDPAC.
260	Smith	Replies that the ceiling is \$500 million in addition to the existing \$260 million.
262	Sen. Shields	States that the actual ceiling is actually \$760 million.
265	Smith	Replies that \$760 million is the correct number, but that it would be contingent on the legislature choosing to issue the debt.
267	Chair Duncan	Expresses concern in regards to the increasing reliance upon lottery dollars.
270	Sen. Trow	Asks if \$760 million is too much debt to be maintained by the earning power of the lottery.
272	Smith	States that the ceiling on lottery bonds is determined by legal limits. Says that the bonds must be covered by a "4 times coverage ratio," in that there must be \$4 in lottery revenues for each \$1 in bond debt service. States that the ratio is conservative and is calculated annually.
287	Chair Duncan	Asks how much bonding capacity is purchased with a \$1 lottery ticket.
291	Wisbrock	Replies that the \$1 would purchase about \$.25 in bonding capacity.
303	Sen. Lim	Mentions that there is a potential ballot initiative that would eliminate video poker in Oregon. Asks what the impact of the elimination of video poker would be on the payment of lottery bonds.
313	Smith	Replies that video poker is the "major contributor of revenues" but that there would be enough revenues remaining from other, "traditional games" to pay for the bonds.
323	Chair Duncan	States that the bonds put a liability on the state.
325	Sen. Lim	States that the "traditional games" comprise about 80% of lottery revenue. States that the lottery revenues annually are approximately \$275 million, of which 20% comes from video poker, which brings the total revenues without video poker below the current \$260 million debt load.

335	Smith	Replies that since the bonds are paid off over a 20 year period, which brings the actual debt service cost to about \$27 million annually, it is the first thing taken out of lottery revenues.
342	Chair Duncan	Mentions that the philosophical discussion regarding the Oregon lottery does not relate directly to the technical procedure for which SB 200 is designed.
363	Sen. Trow	Replies that the committee should be briefed on each section of the bill.
387	Byrnes	Discusses the amendments that will be added later to SB 200.
395	Wisbrock	Mentions that the amendments are still being processed by Legislative Counsel and that the Treasury representatives will thus be giving only an overview of the bill until the amendments come out of Legislative Counsel.
TAPE 17, B		
010	Byrnes	Discusses SB 430 Sections 1 and 2. Mentions that Section 2 would stipulate that the lottery bonds would be considered revenue bonds not backed by the "full faith and credit" of the state of Oregon.
020	Sen. Trow	Asks why the lottery bonds would not be backed by "full faith and credit." Asks if the state is still obligated to pay for them.
021	Byrnes	Replies that the phrase refers to the fact that their payment is from a dedicated source, that being lottery revenues. States that the legislature could appropriate other funds to pay for them, but says doing so would be optional, while use of lottery funds to pay for them is mandatory.
026	Sen. Trow	Asks if the state has an obligation to guarantee the bonds.
027	Byrnes	Replies that there is no legal obligation to do so, but there is the need to protect the credit rating of the state.
030	Chair Duncan	Mentions that if lottery revenue is not available the programs funded by lottery revenue would not need to be funded, unless the legislature chose to do so from other revenue sources.
036	Wisbrock	States that the obligation to pay for those programs is a moral obligation rather than a legal one.
040	Sen. Shields	Refers to the possibility of the elimination of video poker through the initiative process and the effect it might have on the sale of lottery bonds.

046	Smith	Replies that the initiative would be disclosed upon sale of the bonds, so that those purchasing the bonds would be aware of the potential passage of such an initiative. States that the effect of such an initiative on the sale of bonds would be related to the expected level of impact of the elimination of video poker, as interpreted by those purchasing the bonds. States that it may result in a restriction of the ability of the lottery to sell bonds.
063	Byrnes	States that the effect upon outstanding bonds may be to give the bondholders cause of action for an "impairment of contract" action. Says that such actions have been taken in other states which restricted money flow to pay for issued bonds. Says that the action would depend on how reliant the payments are on the income source.
074	Byrnes	Continues the discussion of the sections of SB 430. Mentions that lottery debt service is first paid out of lottery revenues, but adds that there is a 15% allocation to the Educational Endowment Fund (EEF) as well as an endowment to parks. States that SB 200 would consider the 15% allocated to the EEF to be calculated prior to the removal of funds necessary to pay for lottery debt. States that the lottery debt would be paid before any other funds would be allocated.
098	Sen. Trow	Asks if the EEF would receive 15% of the total regardless of which was paid first.
100	Byrnes	Says that in the event that debt service were to leave too little to pay for the entire 15% allocation, there would be a shortfall in the payment to the EEF, which would be prorated accordingly.
108	Sen. Shields	States that, in such a case, the 15% allocation is not guaranteed.
115	Sen. Trow	States that the EEF gets its 15% allocation, if there are the necessary funds to cover it, after debt service but before any other considerations.
123	Byrnes	Concurs with Sen. Trow's statement. Continues discussing the provisions of SB 200.
153	Byrnes	Mentions that Section 8 of SB 200 establishes the Oregon Education Fund (OEF) to hold 75% of the earnings from the EEF. States that the OEF is dedicated to be used primarily for educational purposes, but that it may be appropriated by the legislature, if necessary to pay for lottery debt service. Mentions that Sections 14-19 provide for other types of non-lottery bonds.
173	Sen. Trow	Asks if any of the peripheral changes described in sections 14-19 are controversial, since they have little relation to the main focus of the bill.
178	Byrnes	Replies that they are merely intended to allow the Treasury to use electronic means for bond sales. Discusses the proposed amendments currently making their way through Legislative Counsel.

191	Sen. Trow	Asks if there is any known opposition to SB 200.
195	Wisbrock	Replies that he knows of no opposition.
197	Sen. Trow	States that the bill appears to be non-controversial and that action could be taken upon receipt of the amendments. Adjourns at 4:46 p.m.

Submitted By, Reviewed By,

Patrick Brennan, Marjorie Taylor,
Administrative Support Administrator

EXHIBIT SUMMARY

A ñ Treasury, printed materials, Rollie Wisbrock, 14 pp.

B ñ SB 188, testimony, Rollie Wisbrock, 1 p.

C ñ SB 189, testimony, Rollie Wisbrock, 1 p.

D ñ SB 193, testimony, Darren Bond, 3 pp.

E ñ SB 200, testimony, Charles R. Smith, 5 pp.