

**SENATE COMMITTEE ON INFORMATION MANAGEMENT**  
**AND TECHNOLOGY**

February 3, 1999 Hearing Room H-174

5:00 p.m. Tapes 5 - 6

**MEMBERS PRESENT: Sen. Verne Duncan, Chair**

**Sen. Peter Courtney**

**Sen. David Nelson**

**STAFF PRESENT: Marjorie Taylor, Administrator**

**Patrick Brennan, Administrative Support**

**MEASURE/ISSUES HEARD: Informational Meeting: Electronic Commerce Issues**

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   |
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| <b>TAPE 5, A</b>                         |               |  |
| 005                                      | Sen. Courtney | Calls meeting to order at 5:00 p.m.  |
| <b><u>ELECTRONIC COMMERCE ISSUES</u></b> |               |  |
| 010                                      | Don Mazziotti | Chief Information Officer, Information Resources Management Division (IRMD), Department of Administrative Services (DAS). Offers overview of the IRMD presentation ( <b>EXHIBIT A</b> ). Discusses three possible areas of committee activity: <ul style="list-style-type: none"><li>• Electronic commerce</li><li>• Review of large scale Information Technology (IT) projects</li><li>• Business continuation and the Year 2000 (Y2K) issue</li></ul> Suggests that these are only possible areas of interest to the committee, rather |

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|     |              | than requests from IRMD.   |
| 044 | Pat Lundeen  | Coordinator, Strategic Planning Section, DAS/IRMD ( <b>EXHIBIT B</b> ). States that there has been an explosion of internet applications throughout government. Summarizes some ways in which the internet can be used for information and transactions by citizens, business, and government. States that business and government are taking advantage of the same technologies. Discusses the "24x7" aspect of websites, in that they allow accessibility "24 hours a day, seven days a week."   |
| 082 | Lundeen      | Discusses business applications of information technology. Says that, for state government, the ability to allow citizens access to public information from anywhere, at any time, is especially valuable. Mentions the possibility of registration and paying fees electronically. Discusses the development of an "extranet" which includes both state government and its regular business partners. Discusses premium services for authorized users. Mentions distance education and using internet technology in classrooms.   |
| 102 | Chair Duncan | Mentions the impact of internet and e-mail communication. States that it is difficult to keep up with the constant flow of e-mail within his office and says that the situation is probably similar within state agencies. Asks what kind of an impact these technologies are having on time management of state employees and agencies.   |
| 113 | Lundeen      | Answers that the volume of e-mail has grown every year, but that it has proved to be a fast and complete way to communicate.   |
| 117 | Chair Duncan | Mentions that one problem for himself and other senators is not having enough time to sit down and respond to all of the e-mail that they receive.   |
| 120 | Mazziotti    | States that the materials presented are organized around policy areas of concern for both government and the private sector. Refers to the particular policy issues regarding business and government areas, as well as the legislation that has been proposed with the potential to affect electronic commerce. States that there needs to be a committee that oversees these activities.   |
| 153 | Mazziotti    | States that electronic commerce currently accounts for less than 1% of Oregon's economy, but that it is growing very rapidly and is significant in that it is an emerging industry. States that Oregon has a competitive advantage in hosting electronic commerce companies, since there is no state sales tax. States that many electronic commerce companies have moved to the Portland area because of its natural competitive advantage. States that there is a need to promote this new market, avoid inadvertently putting up barriers to it, and to find out what the ground rules are to electronic commerce legally. States that only Virginia has passed a comprehensive electronic commerce law. Mentions that IRMD is in the process of forming an electronic commerce center. |
| 177 | Sen. Nelson  | Refers to the handout and asks if there is a priority list with regards to private sector electronic commerce issues.  |
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| 184 | Lundeen       | Replies that the items are not in a priority order and offers to address the committee in the future regarding a good starting point for committee action.  |
| 190 | Sen. Nelson   | Discusses the potential for exploiting Oregon's competitive advantage in electronic commerce to strengthen the state's overall economy.   |
| 196 | Mazziotti     | Discusses the need to examine the growth of new media and electronic commerce. Mentions that if these are attractive growth areas then they could be analyzed by the committee to determine what can be done to facilitate their growth. States that there are a number of experts in the area of "e-commerce" who could be brought in to discuss the issue with the committee.   |
| 211 | Chair Duncan  | Asks who is being contacted by companies looking to relocate e-commerce businesses to Oregon. Asks if there is a central source to which such companies make inquiries.   |
| 215 | Mazziotti     | Replies that there is no e-commerce recruitment strategy within the Oregon Economic Development Department (OEDD). States that IRMD has found that companies do not need guidance and that government contact is not necessary at this time to draw e-commerce companies to the state. Mentions that there is good word of mouth within the industry. States that these companies are making substantial investments in moving here and bringing well paying jobs with them. States that he is unsure as to the views of the Revenue Department regarding e-commerce companies, but that they will be generating "considerable" corporate income tax for the state. Refers to Quinsanas (sp?) as an example of an e-commerce company which relocated to the Portland area recently. |
| 265 | Sen. Courtney | Asks how many workers are employed by Quinsanas.  |
| 266 | Mazziotti     | Replies that they employ 17-18 people.  |
| 268 | Sen. Courtney | Asks where the company is located.  |
| 270 | Mazziotti     | Replies that it is located in Portland and is being funded by a venture capital company from Canada.  |
| 274 | Sen. Courtney | Asks why the Revenue Department would be interested in e-commerce companies.  |
| 277 | Mazziotti     | Replies that there is an interest in the tax revenue that these companies could provide. Mentions that there is currently a three-year federal moratorium on taxation of e-commerce companies so as to allow them to get up and running. States that the Revenue Department would be interested in regards to nexus, as it applies to conducting business.  |
| 282 | Sen. Courtney | Asks what nexus means.  |
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| 283 | Mazziotti     | Replies that it is the link to the legal jurisdiction that allows the Department of Revenue to legitimately collect taxes. States that there is some question as to how to tax companies doing business over the internet. Says that it is an issue that may require committee examination. |
| 286 | Sen. Courtney | Asks how many companies like Quinsanas are currently in the State of Oregon.  |
| 300 | Mazziotti     | Estimates that there may be 100 or more.  |
| 301 | Sen. Courtney | Asks if any of these companies are being taxed.   |
| 302 | Mazziotti     | Replies that he does not know.  |
| 303 | Sen. Courtney | Asks if anyone in the Capitol has inquired as to these companies in regards to taxation.  |
| 305 | Mazziotti     | States that he is certain that some individuals are aware of the issues, but that the issue of e-commerce has not been examined by a particular committee.  |
| 308 | Sen. Courtney | Asks how frequently e-commerce companies are moving to Oregon.  |
| 313 | Mazziotti     | Replies that there is no way to track the incoming companies. States that there are certainly a good number and that the state should probably encourage them to form and move here.  |
| 326 | Sen. Courtney | Asks if it is hurting existing businesses within the state when e-commerce companies relocate here.   |
| 328 | Mazziotti     | Replies that, to his knowledge, the relocation of e-commerce companies to Oregon is not harming any existing businesses.  |
| 330 | Chair Duncan  | Mentions that because the companies do much of their business online they do not necessarily compete with local business.   |
| 333 | Sen. Courtney | States that it is a problem to have so many unknowns regarding e-commerce companies. Says that there may be a need for action, but that action is impossible without information.   |
| 361 | Lundeen       | Clarifies that the companies have advantages for existing businesses. States that the companies pay corporation taxes for the profits on their businesses.  |
| 377 | Chair Duncan  | Asks if the location of the warehouse where goods sold online are stored has any effect on the ability to collect taxes from e-commerce companies.  |
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| 379              | Lundeen       | Replies that the storage location of the goods sold online has no impact on taxation. Discusses the difference between sales tax and corporation taxes. States that it is the lack of a sales tax that makes Oregon attractive.  |
| 393              | Jim Craven    | Representative, American Electronics Association. States that the host server companies that the panel has been discussing are only a small part of the bigger picture, since virtually every company in the state is "scrambling to be part of electronic commerce." Adds that there is also a niche for companies that design web pages for other companies who are looking to use the internet as a sales tool. |
| <b>TAPE 6, A</b> |               |  |
| 022              | Mazziotti     | Reiterates that the issue of e-commerce is simply an area in which IRMD feels that that it may be beneficial for the committee to look into.   |
| 024              | Sen. Courtney | Asks if any legislation is needed in this area. Says that there is limited time left in the 1999 Session with which to propose legislation if it is deemed necessary.  |
| 032              | Chair Duncan  | Asks whether the information that IRMD is providing is simply need-to-know or if action on the part of the committee with regards to legislation is necessary.   |
| 034              | Mazziotti     | Replies that IRMD has no legislation to propose to the committee. States that they are responding to the request for identification of issue areas for consideration. Discusses project review within IRMD.  |
| 047              | Carl Wieneke  | Quality Assurance Manager, DAS/IRMD. Discusses materials presented to the committee ( <b>EXHIBIT C</b> ).  |
| 063              | Chair Duncan  | Mentions that, during the 1997 Session and interim, there was a growing sense of cooperation between IRMD and state agencies.  |
| 067              | Wieneke       | Says that evaluation is currently being done from a high level. Mentions current projects and their budgeted cost of \$112 million.  |
| 072              | Sen. Courtney | Asks what sorts of projects IRMD is involved in.   |
| 073              | Chair Duncan  | Offers the example of the Department of Motor Vehicles (DMV) as a current project.   |
| 078              | Wieneke       | States that virtually all agencies have ongoing information technology projects. States that the Year 2000 (Y2K) issue has fostered many of these projects.  |
| 084              | Sen. Courtney | Asks if the \$112 million falls within the Governor's budget.  |
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| 088 | Wieneke       | Replies that it has in past budgets, and that the projects are in various stages of completion.  |
| 090 | Chair Duncan  | Adds that some of the \$112 million is from the Governor's previous budgets as part of ongoing projects.   |
| 092 | Wieneke       | Offers the Department of Human Resources' projects as examples. States that some of their projects have been ongoing for over three years and that the total cost of all projects is a current total of \$112 million.   |
| 102 | Chair Duncan  | Mentions that the DMV project had caused some difficulty.  |
| 105 | Wieneke       | <p>Replies that his job description is to prevent future difficulties on projects. Refers to three major challenges facing IRMD projects:</p> <ul style="list-style-type: none"> <li>• The loss of IT staff</li> <li>• Impact of Y2K effort and its effect on previous projects</li> <li>• Review of major IT projects</li> </ul> <p>States that the loss of IT staff has compounded the Y2K problem, by causing a shortage of qualified personnel to deal with implementation of Y2K compliance programs.</p> |
| 123 | Chair Duncan  | Asks if there will there be a layoff of IT staff after the Y2K issue is resolved, either by IRMD or by private companies to which IRMD staff have migrated, due to the Y2K issue.  |
| 128 | Wieneke       | Replies that he does not know. States that the Y2K effort, and its effect on projects that have subsequently been on hold have left much to be done after Y2K issues have been resolved. Suggests that the committee could look into development of project managers and the standards of project management for the future.   |
| 160 | Mazziotti     | Discusses the possible review of projects by the committee.  |
| 165 | Chair Duncan  | Asks if there is a mandate to review projects.   |
| 168 | Sen. Courtney | Asks if the Oregon Department of Transportation (ODOT) has been reviewed recently.   |
| 170 | Mazziotti     | Replies that IRMD works with ODOT on a daily basis with regards to all of their projects. States that analysts are assigned to ODOT to work with them to solve their potential Y2K problems.   |
| 178 | Chair Duncan  | Asks Wieneke if he can provide a list of active projects and their status.   |
| 181 | Wieneke       | Says that he is prepared to deliver such a list after this meeting.  |

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| 182 | Sen. Courtney | Requests that the evaluations of ODOT be brought in, since ODOT is an agency that has a bad reputation, and that he would like to have information useful in defending that agency from its detractors.  |
| 189 | Chair Duncan  | Says that having ODOT evaluations would serve as an example that the committee could use to get a picture of the review process.   |
| 192 | Wieneke       | Says that he is currently tracking several projects within the DMV and that all projects in ODOT have taken a back seat to Y2K efforts.  |
| 196 | Sen. Courtney | Asks how the DMV is faring.  |
| 197 | Wieneke       | Answers that it is doing well.   |
| 198 | Sen. Courtney | States that he wants documentation on their preparedness, as well as that of ODOT, given their highly publicized problems.   |
| 204 | Mazziotti     | Says that IRMD would be able to provide the information.   |
| 205 | Chair Duncan  | Says that the committee staff could work with IRMD to arrange for the information to be presented, both in writing and in person.  |
| 210 | Mazziotti     | Refers to the Y2K issue. Discusses business continuation planning.   |
| 220 | Judi James    | Risk Management Division, DAS. States that her primary project is currently risk management and business continuation plans in regards to the Y2K issue ( <b>EXHIBIT D</b> ). Says that there are business continuation plans in some agencies, but not in others. Discusses business continuation issues. Mentions that there are statewide plans being scheduled for the summer of 1999. |
| 255 | Chair Duncan  | Asks Ms. James if she has a recommendation for the committee.  |
| 257 | James         | Replies that she recommends that the committee calls key agencies to testify in regards to their business continuation planning efforts.   |
| 279 | Mazziotti     | Mentions that a business continuation plan is an alternative method for delivering services in the event of information technology failure, specifically as a result of Y2K. Mentions a February 19 Congressional hearing, hosted by Sen. Gordon Smith, regarding the Y2K issue. Suggests that the chair and Sen. Nelson be participants in the hearing.                                   |
| 300 | Chair Duncan  | Suggests that the entire committee be involved in the hearing. Discusses other committee issues.   |
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| 336 | Marjorie Taylor | Committee Administrator. Discusses committee meeting times. |
| 390 | Chair Duncan    | Adjourns meeting at 5:55 p.m.                               |

Submitted By, Reviewed By,

Patrick Brennan, Marjorie Taylor,  
Administrative Support Administrator

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**EXHIBIT SUMMARY**

**A ñ Written materials, Don Mazziotti, 1 p.**

**B ñ Written materials, Pat Lundeen, 7 pp.**

**C ñ Written materials, Carl Wieneke, 5 pp.**

**D ñ Written materials, Judi James, 3 pp.**