

SENATE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

February 8, 1999 Hearing Room B

3:00 p.m. Tapes 14 - 15

MEMBERS PRESENT: Sen. John Lim, Chair

Sen. Avel Gordly, Vice-Chair

Sen. Verne Duncan

Sen. Tony Corcoran

Sen. Bill Fisher

MEMBER EXCUSED:

STAFF PRESENT: Carol Rives, Administrator

Gary Roulier, Administrative Support

MEASURE/ISSUES HEARD: Proposed Merger of ORTDF and the OGA

SB 114 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 14, A		
001	Chair Lim	Opens meeting at 3:12 p.m. and opens informational meeting. Asks the committee administrator for an overview of the agenda.

012	Carol Rives	Administrator. Gives overview of the agenda which will examine the proposed merger of the Oregon Resource and Technology Development Fund (ORTDF) and the Oregon Growth Account (OGA). Discusses the historical background of the ORTDF and the reasons for the proposed merger.
033	Rollie Wisbrock	Chief of Staff, Oregon State Treasury. Presents (EXHIBIT A) and summarizes the history of the ORTDF, which was created by the legislature in 1985 and chartered to provide early development seed capital to create industries and jobs in Oregon.
072	Wisbrock	Outlines the differences between the ORTDF and the OGA. The OGA is designed to invest in the later stages of business growth. States that the ORTDF lacks the ability to hold equities, which prevents the fund from having an exit strategy to protect its investments. Remarks that the ORTDF would like the OGA to purchase its equities.
104	Chair Lim	Asks about the total dollar amounts involved.

108	John Beaulieu	Co-Managing Partner, Cascadia Pacific Management. Responds that the amount is approximately \$1.1 million from three transactions.
112	Wisbrock	Discusses the timing of the proposed merger of the two funds. Summarizes HB 2092, which addresses the problem of equity holdings for the ORTDF.
160	Wisbrock	Remarks that there is a simple solution to the stock holding problem, which is to move the ORTDF to the OGA. Remarks that there are only two organizations in the state allowed to hold equities: the Oregon Investment Council, which manages the Oregon Public Employee Retirement System (OPERS), and the OGA. Reviews the origin of the Educational Endowment Fund and the OGA.
208	Wisbrock	Summarizes the controls which would be in place for the ORTDF if the fund were moved to the OGA.
222	Vice-Chair Gordly	Asks if the exhibit outlines the proposed structure under HB 2092 and where Cascadia Pacific Management fits. Discusses with Beaulieu the existing contractual relationship between Cascadia and the ORTDF.
249	Wisbrock	Outlines the organization of the OGA, which also uses a private manager.
254	Chair Lim	Asks about the amount that the OGA is allowed to invest in equities.
260	Wisbrock	Answers that the Educational Endowment Fund is an endowment, so that the principle can never be used and only the interest may be invested. Adds that the ORTDF has requested an investment mix of 65 percent in equities. Explains some

of the limitations on the fund's ability to invest in equities.

- 284 Chair Lim Asks how the 65 percent of investments in equities would be measured.
- 294 Wisbrock Answers that the measurement would be at book value.
- 301 John Calhoun President, CMC ReSearch and Chairman, Ora Innovations. Presents (**EXHIBIT B**) and demonstrates the products developed by Ora Innovations to include medical CD-ROMS and innovative dental tools. States that ORTDF is an investor in Ora. Outlines the history of ORTDF's involvement in the growth of Creative Multimedia in 1990.
- 341 Calhoun Continues testimony by outlining the difficulties of raising capital for Creative Multimedia, page 1 of the exhibit. States, that because of ORTDF's involvement, the company was successful. The company was sold in 1995 and the ORTDF received a \$2.7 million return on a \$600,000 investment.
- 384 Calhoun Emphasizes the importance of seed capital for businesses.
- TAPE 15, A**
- 002 Calhoun Concludes that the state has enough branch plants but needs more company headquarters. Notes that under the current investment restrictions, the ORTDF stands to lose significant returns if they are not able to convert their investments to equity.
- 009 Beaulieu Presents (**EXHIBIT C**) and discusses the ORTDF Annual Report. Continues by outlining investments by the fund, page 4 of the exhibit. Discusses the 700,000 shares of Avi Biopharma that the ORTDF owns, and the questions raised by the attorney general's office regarding the title to those shares. Notes that the proposed merger of the ORTDF and the OGA will not solve the question of ownership of these shares and they are waiting on a decision by the attorney general's office.
- 047 Beaulieu Points out examples of companies that have succeeded. Emphasizes the types of industries the ORTDF invests in, page 5 of the exhibit.
- 079 Beaulieu Summarizes the fund's objectives and commitments, page 6 of the exhibit. Discusses the history of ORTDF venture capital, page 7 of the exhibit. Points out that the total value of the fund is \$24 million. Emphasizes the differences in total venture capital investment in the first half of 1998 between Washington (\$159 million) and Oregon (\$14 million).
- 117 Sen. Duncan Asks how many companies that were funded by the ORTDF are still in existence.

121	Beaulieu	Answers that only two companies are no longer in business. Continues by outlining ownership of the ORTDF, auditing procedures, and other frequently asked questions, page 8 of the exhibit.
163	Beaulieu	Discusses the ORTDF balance sheet, page 13 of the exhibit.
172	Vice-Chair Gordly	Asks how many of the companies the ORTDF has invested in are profitable.
185	Beaulieu	Summarizes the profitable investments by the fund and adds that of the companies they are currently assisting, probably only three or four are profitable. Explains that they are start-up companies and most are still searching for additional funding.
194	Vice-Chair Gordly	Asks about the eleven companies no longer listed in the report.
201	Beaulieu	Responds that five of the companies were a total loss, and they received some type of return on the remaining six companies.
210	Chair Lim	Asks about the dollar amount of the lost money on the failed companies.
211	Beaulieu	Answers that the ORTDF has lost less than \$2 million.
219	Chair Lim	Remarks that investments in equities could become more volatile. Asks what would happen if the stock market fell.
229	Calhoun	Answers that most venture equities are not publicly owned, so that variations in the daily stock market are not relevant.
247	Chair Lim	Asks about the disparity between the levels of venture investment in Washington and Oregon.
266	Beaulieu	Responds that there are many more venture capital firms in the Seattle area.
281	Calhoun	Adds that the research base in the Seattle area is a big factor.
300	Chair Lim	Asks for an explanation of the mission of the ORTDF.
309	Wisbrock	Answers that the charter of the ORTDF is to provide early stage seed capital investment in emerging businesses in Oregon.
319	Chair Lim	Summarizes the history of the ORTDF. Asks about the ORTDF mission of aiding

businesses in Oregon and whether Oregon is accomplishing that mission.

- 330 Wisbrock Answers that Oregon is. Summarizes the capital gap in venture funds in Oregon and the difference in investment strategies between the ORTDF and the OGA.
- 382 Rives Asks for clarification in the differences in venture investments in Washington and Oregon, and whether the ORTDF invests in the state of Washington.
- 393 Beaulieu Clarifies that ORTDF does not invest in the state of Washington.
- 402 Rives Asks for clarification of HB 2092 and the problems regarding titles to equities.
- 411 Beaulieu Answers that the problem exists in the title of one particular stock, Avi Biopharma, and summarizes the opinion from the attorney general's office.

TAPE 14, B

- 012 Rives Asks if the legislature can assist in this particular problem.
- 015 Beaulieu Responds that the problem can be avoided in the future by moving the ORTDF under the OGA fund.
- 025 Vice-Chair Gordly Asks if hearings have begun on HB 2092.
- 026 Wisbrock Answers that hearings have begun in the House.
- 033 Vice-Chair Gordly Asks about objections and amendments to the bill, and whether HB 2092 is a short- or long-term solution.
- 038 Wisbrock Answers that it is a long-term solution. Discusses with Vice-Chair Gordly that he is not aware of any objections to this solution.
- 074 Vice-Chair Gordly Emphasizes that 1,600 jobs that have been created by the ORTDF, and asks how many of the created jobs have been outside the Portland metropolitan area.
- 078 Beaulieu Responds that 42% of the ORTDF investments have been made outside the Portland area.
- 082 Sen. Corcoran States that 9,600 total jobs have been created in the corridor between Eugene and Corvallis, and the ORTDF is to be commended for their part in this accomplishment.
- 097 Vice-Chair Gordly Asks what the percentage of jobs created outside the Portland metro area would be if the jobs created in the Eugene and Corvallis area were not included in the totals.

106 Beaulieu Answers that the dollar figure would be approximately 10 percent of the total investments. Summarizes the efforts of the fund to look for opportunities in the rural areas of the state. Explains that not many companies in those areas meet the ORTDF criteria for investment.

120 Chair Lim Closes informational meeting and opens public hearing on SB 114. Asks for a summary of SB 114.

SB 114 PUBLIC HEARING

124 Rives Explains the provisions of SB 114, which establishes a rainy day fund for economic development.

157 Wisbrock Summarizes a similar bill, SB 190, which outlines a more universal approach to stabilizing the state budget. Continues by explaining the importance of the bond rating for the state. Explains that the bond raters have two concerns with Oregon: the volatile initiative process within the state and the lack of a stabilization fund. Remarks that Oregon is one of only four states that do not have a budget stabilization fund.

197 Wisbrock Discusses the impact that an economic downturn would have on the state, particularly under the present tax structure which relies primarily on what could be volatile income and corporate taxes. Summarizes the possible uses of the stabilization fund.

242 Wisbrock Reviews recent occurrences where short-term funds were needed. Adds that these occurrences did not cause major problems because of the health of the economy. Outlines the restrictions for the stabilization fund use contained within SB 190.

289 Wisbrock Continues testimony by explaining that the stabilization fund could not be used for new programs, and that a super majority in the legislature would be required for using the stabilization fund for emergencies.

334 Wisbrock States that the problem with SB 190 is the source of the fund. Notes that the bond raters consider a responsible stabilization fund to be approximately five percent of the total budget. Suggests that the tobacco settlement may be one source for this fund

349 Wisbrock Explains that SB 114 uses unemployment rates as a trigger for an emergency fund. Adds that the Treasury office has no concerns with the bill other than Section 2, which states that lottery monies will be used to establish the fund. Notes that some changes need to be made to the language of Section 2 of the bill.

386 Wisbrock Presents **(EXHIBIT D)** and details the outflow of lottery monies. Continues with an explanation of lottery obligations, page 1 of the exhibit.

TAPE 15, B

005	Wisbrock	Continues testimony by discussing lottery obligations.
013	Chair Lim	Asks for the amount that is owed to the OPERS.
023	Wisbrock	Answers that the obligation is approximately \$1.3 billion over the next 25 to 30 years.
028	Chair Lim	Asks about the State Accident Insurance Fund (SAIF) obligations.
030	Wisbrock	Responds that there is approximately \$250 million outstanding, to be paid back over the next three to four biennia. Adds that the amount owed to retirees is \$3-4 million.
031	Vice-Chair Gordly	Asks about the definition of an "emergency" and whether the term would include natural disasters.
037	Wisbrock	Answers that that it would, but that the legislature could define an emergency with a super majority. Discusses other bills with Vice-Chair Gordly that are concerned with emergency management issues, and the parties that are involved in these discussions.
063	Chair Lim	Closes public hearing and adjourns meeting at 4:40 p.m.

Submitted By, Reviewed By,

Gary Roulier, Carol Rives,

Administrative Support Administrator

EXHIBIT SUMMARY

A ñ Line Chart of the Oregon State Treasury Organization, Rollie Wisbrock, 1 page

B ñ ORTDF, letter, John Calhoun, 3 pp

C ñ ORTDF, Annual Report, John Beaulieu, 24 pp

D ñ SB 114, Oregon State Lottery, Flow of Funds, Rollie Wisbrock, 1 page