

**PUBLIC HEARING**

**HJR 71, HB 3556, HB 2781, HB 2354**

**TAPES 160 A/B, 161 A**

**HOUSE REVENUE COMMITTEE**

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**MAY 6, 1997 8:30 AM HEARING ROOM A STATE CAPITOL BUILDING**

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**MEMBERS PRESENT:** Rep. Tom Brian, Chair (Arrived 9:10 a.m.)

Rep. Lee Beyer, Vice-Chair

Rep. Randall Edwards

Rep. Anitra Rasmussen

Rep. Lane Shetterly

Rep. Ken Strobeck

**MEMBERS EXCUSED:** Rep. Tony Corcoran

Rep. Mark Simmons

Rep. Leslie Lewis

**WITNESSES PRESENT:** Rep. Randall Edwards

Rollie Wisbrock, Oregon State Treasury

Chuck Smith, Oregon State Treasury

Bill Nessly, Department of Justice John Young, Northwest Regional Education Service District

Delna Jones, Northwest Regional ESD

Ossie Rose, Confederation of Oregon School Administrators

John Marshall, Oregon School Boards Association

**STAFF PRESENT:** Steve Meyer, Economist

Barbara Guardino, Committee Assistant

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**TAPE 160 SIDE A**

007 Vice Chair Beyer Called meeting to order at 8:43 a.m.

**PUBLIC HEARING - HJR 71, HB 3556**

010 Rep. Edwards Introduced HB 3556 and HJR 71. These bills address how state can help school districts with their financing, particularly in light of M47 and potentially M50. Address capital needs. Bills would allow school districts opportunity to use state's credit rating to issue debt. This allows for a cheaper cost of borrowing. State's credit rating is AA, which could save schools about \$25 million in next five years.

Long-term goal is to allow state to issue debt for school construction, computers, other needs. This bill focuses primarily on school districts issuing bonds. With M47 and M50, state school system is under stress. Their ability to issue levies against property taxes has been diminished.

052 Rollie Wisbrock Refer to written testimony paraphrased (EXHIBIT A) in support of HB 3556 and HJR 71. Bills would reduce school district expenses and make education dollars go further under constraints of M 5, M 47 and M50. They would reduce property taxes by reducing cost of bond issuance for affected districts. Use of state's AA rating, districts will see savings in interest rates and insurance costs.

Capital needs of school districts should increase due to population growth. This program will save local districts money while retaining local voter approval of borrowing.

104 Rep. Rasmussen Asked, what does school district have to do to get a rating?

Explained, it has to present a debt package to a bond rating agency, cost can be

- 106 Wisbrock significant, travel is required. Most rating agencies have offices on West Coast.
- 178 Wisbrock Questions and discussion concerning rating agencies, purchasing bonds.  
State of Oregon spent great deal of time making sure rating agencies understand the credit-worthiness of this state. If bond rating decreases, it could cost state hundreds of millions of dollars. Local districts get benefit of Oregon's continual efforts.
- 191 Vice Chair Beyer No question this would save small districts money. Raises some questions: Would this in any way affect Oregon's credit rating? What mechanism does legislation provide for state if a district defaults?  
State has talked about this proposal with all 3 rating agencies, to make sure they would not jeopardize state's ratings. Agencies all had positive comments. State based its program on a similar program in Utah, which has been successful.
- 201 Wisbrock School districts' ratings are at some jeopardy now, since M5, M 47 and M50 are reducing their ability to raise money. Rating agencies have been candid in saying these districts will be watched closely. Districts are concerned their ratings could drop. State treasury has built in safeguards with its program: voter approval to issue general obligation bonds. Also, state treasury has built in some reimbursement guarantees. There has never been a general obligation bond default in an Oregon school.
- 302 Vice Chair Beyer Asked whether legislation gives state authority to impose a higher property tax rate on school districts that default, in order to recover state's losses.  
State has that ability to do this in HB 3556. State guarantees it will make the payments if a local jurisdiction defaults. HB 3556 contains a mechanism to compel school districts to guarantee they will meet their financial obligations. (refer to HB 3556 -2 Amendments, Section 7, page 8) (EXHIBIT B)
- 307 Wisbrock Questions and discussion interspersed.  
Refer to HB 3556-2, Section 7, page 8, lines 10-20  
"If the State Treasurer determines that amounts ..." Gives state the authority to intercept money coming from state to district.
- 374 Bill Nessly Page 7, provision authorizes state treasurer to establish a written payment plan for state to recoup its outlay. If this doesn't work, state treasurer is allowed to pursue any legal avenues.  
Questions and discussion concerning state recovering its money from school districts.

### **TAPE 161 SIDE A**

- 016 (Tape begins)
- 049 Rep. Rasmussen Asked, under what circumstance would a school fail to repay its debt to the state?

- 061 Nessly This is difficult to say, because a default has not happened since Great Depression years, when irrigation districts defaulted.  
Issue is to try to help local districts get a better rating. Mechanics of backstop are important, but credit rating is what is important. School districts, while they have been weakened to some extent, there is lot of scrutiny when they issue debt.
- 074 Rep. Edwards Emphasized, bill must be written as strongly as possible in order to guarantee state's credit-worthiness. That is why the mechanics sound so onerous, although a default should never happen.
- 095 Rep. Rasmussen If school districts lose their property taxes, does that effect this?
- 101 Nessly No, a district is obligated to pay debt no matter what happens. They cannot vote the debt out.
- 113 Rep. Shetterly Asked, is there an opportunity for state to approve or disapprove a bond issue?
- 122 Wisbrock Issuing district has to guarantee that the loan will be sound. Also, state is not obligated to approve a bond.
- 132 Chair Brian Referred to Wisbrock's written testimony, page 4: Criteria established as safeguards to mitigate risk to state. Items 2 and 4 talk about processes to determine fiscal prudence of school districts. Asked, where is this found in -2 amendments.  
Directed members' attention to HB 3556 -2, top of page 3: "The state treasurer may, in accordance with ..."
- 141 Nessly Requires state treasurer adopt rules under administrative procedures act, to describe qualifications districts must meet.

#### **PUBLIC HEARING -- HB 2354**

- 179 Rep. Strobeck HB 2354 was introduced to correct oversight from 1995 legislation that consolidated a number of county Education Service Districts (ESD's). Particularly Northwest Regional ESD in Hillsboro. Project, called Capital Center, is a cooperative program. They need to issue bonds for remodeling, etc. To do this, entire regional ESD has to vote, even though it only effects Washington county. Bill allows component districts to vote rather than the whole county.
- 220 Delna Jones Introduced Dr. John Young who will testify in support of HB 2354. Education Committee put in safeguards to make sure process will not be abused. Urged committee's support of bill.
- 238 Refer to written testimony (EXHIBIT D).
- John NW Regional ESD serves four counties, 19 school districts. Bill goes beyond Capital Center in providing flexibility for regional ESD's. It will allow flexibility to create bond

- Young districts within boundaries of component school districts. Further develops and expand Capital Center program. Allow for other kinds of additions to component school districts. Bill is designed so a group of component school districts within ESD would have ability to form bond district. Refer to bill, page 1: Section 2. 2 (a)
- 294 Young Former Washington County ESD contains seven school districts. They spill over into other counties.
- Vice  
303 Chair Referred members to HB 2354 Section 2. 2(b); and page 2, lines 17-18  
Beyer
- 310 Young Explained, this to do with not wanting to create "have" and "have not" districts.  
Questions and discussion concerning Sections 2, 3.  
Bill provides mechanism to form a bond district, that can then go out for an election.
- 444 Jones More questions and discussion concerning forming a separate bonding authority within an ESD.

#### **TAPE 160 SIDE B**

- Refer to HB 2354, Section 3 bottom of page 2: Equipment and furnishings. Committee may have to return to this after May 20 election results of M50.
- 038 Chair  
Brian Refer to HB 2354, page 2, line 30: concerns school busses  
Questions and discussion.
- 084 Steve  
Meyer Pointed out, page 2 lines 6-7, new districts would have authority to issue bonds and levy taxes. Bottom page 2, lines 43-44, defines school as including county education bond district. Different approach from HB 2781.
- 093 Chair  
Brian Section 4 requires organization with HB 3710 and HB 2048 (M50 bills) concerning the election process.

#### **PUBLIC HEARING -- HB 2781**

- 114 Steve  
Meyer HB 2781 deals with school limited improvement districts. Authorizes them and allows a school board to designate number of improvement districts. Allows a limited improvement district issue bonds for capital construction or capital improvements. Would require voter approval of bonds issued. Gives limited improvement district same authority as a school district in bonding statutes.  
Has reservations about impact of bill on the broader question of distribution of funds to local school districts. Also ratio questions. Major issue is creating equity of services statewide. This bill would allow local districts to organize and better-off districts would go against what state is trying to do.
- 148 Ossie  
Rose Requested committee not take action on this bill this session.

- Oregon School Boards Assn. supports HB 2781. School districts facing explosive growth, are now limited due to M47 etc. They need every tool to deal with facilities issues. This bill provides schools with additional tool. Expressed concerns about potential for inter-district rivalries between more and less wealthy sides of a district.
- 168 John Marshall Also, raised technical concerns, suggested sponsor contact Dept. of Revenue about how to set up boundary descriptions. This bill creates separate taxing district within a school district. How does a district set up boundaries for voting precincts, and for collecting the taxes.
- 222 Rep. Edwards Asked, what the author was thinking in terms of size of issuance.
- 234 Marshall Expressed reluctance to speak for sponsor, Rep. Lynn Snodgrass. She used her own school district as an example. Explosive growth on outskirts of city. Her idea was to create situation where residents on newer side of a district could tax themselves. In terms of value or tax rate, he does not know.
- 317 Vice Chair Beyer Questions and discussion about shifting boundaries, process of deciding where to put a capital improvement.
- 317 Vice Chair Beyer Commented, Springfield just built three new schools, none in the new areas. Would probably make most sense to do this with elementary schools in a larger school district. Also, most of school districts have open enrollment, so people may be paying taxes in one place and kids in school elsewhere.
- 353 Chair Brian Adjourned meeting at 9:58 a.m.

Submitted by, Reviewed by,

Barbara Guardino Kim James

Committee Assistant Revenue Office Manager

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**EXHIBIT SUMMARY:**

- A. HB 3556, Wisbrock, Testimony in Support of HB 3556 and HJR 71, 5 pp.
- B. HB 3556, Wisbrock, Proposed Amendments to House Bill 3556, 13 pp.
- C. HCR 71, Meyer, Proposed Amendments to House Joint Resolution 71, 3 pp.
- D. HB 2354, Young, Northwest Regional Education Service District, 3 pp.
- E. HB 2354, Meyer, Staff Measure Summary, 1 p.
- F. HB 2354, Meyer, Fiscal No Impact statement, 1 p.
- G. HB 2781, Meyer, Staff Measure Summary, 1 p.
- H. HB 2781, Meyer, Fiscal No Impact statement, 1 p.