

PUBLIC HEARING ON SJR 25 TAPES 145 - 146 A/B

**SENATE REVENUE COMMITTEE**

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**MAY 9, 1997 - 9:00 A.M. - HEARING ROOM B - STATE CAPITOL BUILDING**

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Members Present: Sen. Ken Baker, Chair

Sen. Verne Duncan

Sen. Tom Hartung

Sen. Randy Leonard

Members Excused: Sen. Neil Bryant, Vice Chair

Sen. Joan Dukes

Witnesses: Rollie Wisbrock, Chief of Staff, Treasury Department

Chuck Smith, Debt Manager, Treasury Department

Rep. Randall Edwards, District 15, Portland

Gary Carlson, Associated Oregon Industries

Tim Nesbitt, Oregon Public Employees Union

Laurie Wimmer, Government Relations Consultant, Oregon Education  
Association

Staff: Ed Waters, Economist

Carol Phillips, Committee Assistant

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**TAPE 145, SIDE A**

005 Chair Baker Opened meeting at 9: 07 a.m.

**OPENED PUBLIC HEARING ON SJR 25**

010 Rollie  
Wisbrock

Here on behalf of the Treasury Department to discuss Oregon's bond rating. One of the main responsibilities of the Treasury Department is to protect the bond rating and enhance it whenever possible. The bond rating is the financial credit health of the state and is very important. If rating goes down, Oregon pays an additional premium for all the debt the state issues for the life of the bonds. A full downgrade in bond rating would mean \$300 to \$400 million dollars in additional interest payments for the issuance of a debt over the life of the debt.

030 Wisbrock

Gave brief background on how rating agencies would look at Rainy Day Fund. Treasury personnel have talked to rating agencies for four years about how to protect that bond rating. Those agencies will perceive the Rainy Day Fund as a positive. An issue for rating agencies is the initiative process, which they feel can cause unanticipated revenue impact. Those agencies would perceive Rainy Day Fund as a shock absorber which would allow state to withstand shock of an initiative, an example of which would be Measure 5.

046 Wisbrock

Continued by saying rating agencies look for more flexibility to be able to address financial conditions or political conditions that would negatively impact Oregon's creditworthiness. For example, any bill which comes out with a constitutional amendment and is restrictive would not be seen in a positive light. Agencies are concerned about issues not anticipated today but which could impact Rainy Day Fund. For example, if there were a constitutional amendment the agencies would be more receptive to a general statement about what would define "rain".

074 Wisbrock

Oregon has \$4 billion in outstanding debt. Of that \$4 billion outstanding, about \$1 billion is held by Oregonians, i.e. "moms and pops" who hold paper for the State. If bond rating decreases, those individuals holding paper to fund retirement, children's education, whatever would see their funds lessen. Many do not hold bonds to maturity. If they trade bonds to get the revenue for their retirement, children's education, etc., and if Oregon's bond rating is decreased, it would have a negative economic on those holders.

097 Chuck  
Smith

Explained that bonds are registered today in what is called "street name" or depository trust company name. The individuals that own the bonds are no longer listed with paying agents as they were 20 years ago. The people who own these bonds own them through brokerage accounts, banks, Trust Departments, mutual funds, etc. and the bonds are registered in the names of those entities. About 25%, or \$1 billion dollars worth, of bonds go to "Oregon retail" or individual owners. Mutual funds are the

dominant player in the market today.

115 Chair Baker Stated that Wisbrock indicated that the additional interest charges could be \$300 to \$400 million in the life of a bond issue. Asked how many bond issues are generally outstanding at any one time?

119 Wisbrock Answered \$450 million in debt was issued last year. A full downgrade represents a large amount of money going for increased interest. Anticipates issuing same amount of bonds annually. Continued regarding Sen. Dukes concern that if we have the guarantee of the statewide property tax to back up general obligation bonds, why would rating agencies be concerned about minor fluctuations in the state economy? The rating agencies know they can retrieve the money for the debts. Legislature would initiate bonding for statewide property tax which would be outside of Measure 5. It is not a matter of knowing where the money can be collected, it is how hard will it be to collect it? The higher the credit rating, the more comfortable creditors would feel that debts would be met without bondholders having to pursue a statewide property tax.

157 Wisbrock Addressed issue of lottery cap. Would prefer to see flexibility statutory as opposed to constitutional. For example, when the population of Oregon doubles in fifteen or twenty years and the lottery is capped at a constant \$600 million there could potentially be three-fourths of all lottery revenues going into Rainy Day Fund. So flexibility is essential in order to move benchmarks up as necessary.

177 Wisbrock Regarding the (-1) Amendments to SJR 25 which deals with Educational Endowment Fund, the Treasury Department does not think it is required to protect lottery issued debt because it is protected constitutionally now. Said that if this issue stays in the bill would like to discuss matter further with Committee because Treasury Department is uncomfortable with it.

188 Chair Baker Stated that if SJR 25 moves forward, it would most likely start in the House as a formal bill.

204 RepRandall Edwards Introduced similar type of "rainy day" or "budget stabilization" bill in House. Concept is to set aside money for situations in which state finds itself in need, i.e. economic downturn. Concept being used by many states, Oregon being one of the last. Having such a fund helps with state's creditworthiness.

227 Rep. Edwards A question Rep. Edwards raised on House side is there is no formal policy for General Fund ending balance in the state. At the end of the day try to have about 2% cushion. Whatever is done on this bill should formalize a process to have ending balance in General Fund for Emergency Board operations.

Continued by stating SJR 25 contemplates 7%, but bill he was involved in was 5%. Question is how easy will it be to fill that fund. Another issue is use of the fund; economic indicators and potential natural disasters are two possibilities. Moody's credit rating agency's biggest concern in flexibility of state's finances. Comment made

- 255 Rep. Edwards in November 12, 1996 issue of Moody's Investors Financial Service said, "Initiative activity may create uncertainties for Oregon bond market. In addition to potential impact of any specific initiative, concern exists that rising number of sweeping number of ballot initiatives may create a climate of greater uncertainty in the state's municipal market."
- 315 Rep. Edwards Said he wanted to go on record stating that this is not a slush fund and that we must be prudent in using the funds. A prudent individual would put money aside for emergencies, and that is what SJR 25 does. Initiatives can have immense financial impact on the state budget. Once the fund is filled, excess under SJR 25 would go to the Education Endowment Fund. Feels General Fund moneys should go back to General Fund, and Lottery money could go to Education Endowment Fund. Wholly supports the use of Education Endowment Fund for setting up a capital program for schools as contemplated in bill now.
- 372 Sen. Hartung Hopes more time can be rescheduled on this bill because more discussion is necessary.
- 387 Chair Baker Asked Rep. Edwards where the balance point is. To gain trust of voters it is necessary to lock in conditions to create a comfort level and trust factor. And there must be flexibility to invade the fund if necessary. Asked where is that balance point to gives the 90 legislators the ability to balance the state and Measure 47 impact. Chair Baker's preference would be constitutional because next session this session's successors could be out to raid the fund.
- 408 Rep. Edwards Answered that most states which have a rainy day fund do not put it in constitution. Questions and discussion.

#### **TAPE 146, SIDE A**

- 047 Gary Carlson Exhibit A - Read written testimony.
- 118 Tim Nesbitt Exhibit B - Read written testimony.
- 261 Laurie Wimmer Exhibit C - Read written testimony.
- 296 Sen. Duncan Asked Gary Carlson a question regarding Exhibit B. Does he concur with the figures on page 2 of Nesbitt's testimony.
- 304 Chair Baker Stated Carlson could reply in a letter back to the Committee on his findings.
- 309 Chair Baker Adjourned meeting 9:55 a.m.

Carol Phillips

Committee Assistant

Kim James

Office Manager

Exhibit Summary:

A. SJR 25, Carlson, Written testimony dated 5/8/97, 4 pages

B. SJR 25, Nesbitt, Written testimony dated 5/9/97, 4 pages

C. SJR 25, Wimmer, Written testimony dated 5/9/97, 1 page