

SENATE COMMITTEE ON
TRADE AND ECONOMIC DEVELOPMENT

April 13, 1995 Hearing Room 137
8:00 a.m. Tapes 64-66

MEMBERS PRESENT: Sen. John Lim, Chair
Sen. Bill Kenemer, Vice-Chair
Sen. Bill Bradbury
Sen. Gene Derfler

MEMBERS EXCUSED: Sen. Joan Dukes

STAFF PRESENT: Joseph Cortright, Executive Officer
Jeri Chase, Office Manager
Bobby Sullinger, Committee Assistant

WITNESSES: Gerald Kissler, Senior Vice Provost, University of Oregon, Chair
of the Governor's Working Group on Access to Capital
John Calhoun, President of CMC ReSearch, Chairman of Creative
Bill Campbell, Ater, Wynne
Stan Timmerman, Chair of Oregon Research Technology
Mary Olsen, Vice-Chair of Oregon Research Technology
Wayne Embree, Deputy Director, Oregon Research Technology
Commission
Randall Edwards, Executive Assistant to the Treasurer
Mike Mueller, CPA
Rollie Wisbrock, Chief of Staff for State Treasurer
Bill Nessel, Assistant Attorney General
Janet Jones, Oregon Economic Development Department
Jon Jaqua, Deputy Director, Oregon Economic Development
Grover Simmons, Independent Employer Association, Pacific
Imaging Association
Robert Cantine, Association of Oregon Counties
Mark Huston, Oregon Economic Development Department
John Christie, Chairman Oregon Hardwood Forest Products
Robert Tarrant, Oregon Hardwood Forest Products Committee
Jerry Haney, Woody Wood Products

MEASURES HEARD: SB 696 -- Requires State treasurer to submit annual report
to Governor and legislative assembly concerning investment of
state funds in manner benefiting economy of Oregon -- PH

SB 699 -- Establishes Oregon Seed Capital Account within Oregon
and Technology Development Fund -- PH

SB 309 -- Adds graphic communications industry to definition of
industries" for purposes of certain economic development laws -- WS

SB 673 -- Changes manner of requesting undertakings of eligible
benefiting key industries -- PH

SB 966 -- Creates Oregon Hardwoods Commission to assist in
hardwood related industries in state -- PH

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These minutes contain materials which paraphrase and/or summarize
statements made during this session. Only text enclosed in quotation marks

report a speaker's exact words. For complete contents of the proceedings,
please refer to the tapes.

TAPE 64, SIDE A

001 CHAIR LIM: Brings the committee to order at 8:13 a.m.

SB 696 -- Requires State treasurer to submit annual report to Governor and
legislative assembly concerning investment of specified state funds in
manner benefiting economy of Oregon -- Public Hearing

SB 699 -- Establishes Oregon Seed Capital Account within Oregon Resource
and Technology Development Fund -- Public Hearing

002 CHAIR LIM: Opens PUBLIC HEARING on SB 696 and SB 699.

007 CORTRIGHT: Overviews Staff Measure Summary For SB 696 [EXHIBIT A].

018 CORTRIGHT: Overviews Staff Measure Summary For SB 699 [EXHIBIT B].

033 GERALD KISSLER: Presents written testimony in favor of SB 699 and SB
696 [EXHIBIT C].

110 KISSLER: Continues to present [EXHIBIT C] (Decline In Venture Capital
Investments).

148 KISSLER: Continues to present [EXHIBIT C] (Three Reasons Why Venture
Capital Does Not Move Freely Around The Country)

177 KISSLER: Continues to present [EXHIBIT C] (Recommendations relating to
SB 699).

206 KISSLER: Continues to present [EXHIBIT C] (Recommendations relating to
SB 696).

213 SEN. KENEMER: Do you have amendments for SB 696.

215 KISSLER: Yes, I would recommend an addition of a reporting requirement.

272 SEN. DERFLER: Pension funds belong to employees, and I am reluctant to have the legislature suggest investment strategies for pension funds.

285 KISSLER: Responds to committee discussion relating to investments of the public employees pension fund.

299 SEN. BRADBURY: What is the difference between the Resource Technology Development Fund and the Oregon Seed Capital Account?

315 KISSLER: Responds to committee discussion.

330 SEN. KENNEMER: I think we want to avoid micro-managing this money, but I would like to establish some policy relating to the maximizing of Oregon's investments.

342 SEN. DERFLER: I do not disagree. The Oregon employee pension funds are among the best performing in the country because the legislature has not been involved in its management.

379 JOHN CALHOUN: Presents written testimony in favor of SB 696 and SB 699 [EXHIBIT D].

450 CALHOUN: Continues to present [EXHIBIT D] (Sources of venture capital).

TAPE 65, SIDE A

018 CALHOUN: Continues to present [EXHIBIT D] (Outside investment in Oregon).

030 BILL CAMPBELL: Presents Minutes of the Oregon Capital Formation Committee -- January 10, 1995 [EXHIBIT E].

076 CAMPBELL: Presents As reported by Mike Francis of the Oregonian on ORTEL on 4/12/95 [EXHIBIT F].

094 CAMPBELL: Presents a research slide depicting the potential cure for the AIDS virus [EXHIBIT G].

131 CAMPBELL: Continues to present [EXHIBIT G] (Biotechnology Seed Capital).

173 CHAIR LIM: Has the Governor indicated how much money will be budgeted for seed capital?

177 KISSLER: The Governor did not include an amount for seed capital.

193 STAN TIMMERMAN: Presents testimony in favor of SB 699.

249 MARY OLSEN: Presents testimony in favor of SB 699 and overviews Top Twenty Portfolio Companies [EXHIBIT H].

278 SEN. DERFLER: Could you explain why the market system has not filled the need for venture capital?

288 OLSEN: Start-up companies are generally not sophisticated enough to get loans?

306 SEN. DERFLER: Are the returns on investments better for these new start-up companies?

308 OLSEN: Yes, but the risk are higher. They have a higher failure rate.

312 SEN. DERFLER: Is the problem the high failure rates?

313 OLSEN: That is one of the reasons.

335 SEN. DERFLER: Do these start-up businesses requires more management?

336 OLSEN: They require more management time.

352 WAYNE EMBREE: Presents testimony in favor of SB 699 and overviews Capital Market Exposure of EC Focus Fund Managers [EXHIBIT I].

439 EMBREE: Continues to present testimony relating to new biotech companies.

TAPE 64, SIDE B

020 SEN. DERFLER: I hear you saying that there is not enough capital for reinvestment throughout the nation. Maybe we ought to start talking about how we can encourage saving to increase the dollars available for investment.

022 EMBREE: There is not a shortage of capital it is not directed effectively.

041 CHAIR LIM: We should look at the state of Massachusetts and how they have raised funds for seed capital investments. Do you know how much they are investing in seed capital?

048 EMBREE: To date they have had 18 million dollars invested.

059 CHAIR LIM: I would like to see more lottery dollars go towards seed capital investments.

072 RANDALL EDWARDS: Presents written testimony in favor of SB 699 and SB 696 [EXHIBIT J].

086 EDWARDS: Overviews Oregon State Treasury Oregon Investments -- June 30, 1994 [EXHIBIT K].

153 MIKE MUELLER: Is this bill aimed at targeting venture capital?

160 CORTRIGHT: Overviews section 1 and section 2 of SB 696.

174 SEN. DERFLER: Would it be feasible for the treasury to micro-manage these companies in order to promote success?

181 ROLLIE WISB ROCK: Responds to committee discussion relating to managing seed capital investments.

202 SEN. DERFLER: If you set-up a separate section of the treasury to micro-manage these business the returns of 30 to 40 percent would off-set the cost of the micro-management. Would that be feasible as an investment?

211 WISB ROCK: Where would the money come from and how would the staff be provided?

222 BILL NESSLE: Presents testimony relating to SB 696.

243 SEN. BRADBURY: I do not think the Treasury should do the micro-management. The Treasury should contract with venture capital firms to do the micro-management.

271 WISB ROCK: Responds to committee discussion relating to evolving policies.

346 WISB ROCK: Continues to respond to committee discussion relating to market rates of return.

353 SEN. KENNEMER: We need to explore options of engaging the private sector contractors to micro-manage venture capital investments by the State Treasurer.

372 WISB ROCK: Responds to committee discussion relating to private sector management companies for seed capital investments.

385 BILL NESSLE: Continues to presents testimony relating to investing pension funds in venture capital.

405 SEN. DERFLER: Why hasn't the private sector filled this niche for seed capital?

425 WISB ROCK: There is a reluctance to use PERS dollars on investments which are perceived to have a negative risk factor, and these investments are generally too small.

TAPE 65, SIDE B

016 SEN. DERFLER: I here different reasons as to why the market place is not providing this seed capital investment service.

021 EDWARDS: Responds to committee discussion relating to seed capital funds available in the market place.

045 SEN. DERFLER: I am wondering what we are trying to accomplish with this bill. I am hearing confusing testimony. Some groups are looking for seed capital and the State Treasurer does not want to invest in seed capital.

052 CHAIR LIM: Closed PUBLIC HEARING on SB 696 and SB 699.

053 CHAIR LIM: Presents a certificate to Senator Bill Bradbury in recognition of his service on the committee and in the legislature.

SB 309 -- Adds graphic communications industry to definition of "key industries" for purposes of certain economic development laws -- Work Session

082 CHAIR LIM: Opens WORK SESSION on SB 309.

083 CORTRIGHT: Overviews Proposed Amendments To Senate Bill 309-2 [EXHIBIT M].

098 CORTRIGHT: Overviews Proposed Amendments To Senate Bill 309-3 [EXHIBIT N].

103 CORTRIGHT: Overviews House Bill 2799 [EXHIBIT O].

114 SEN. DERFLER: Where is HB 2799 in the process?

115 CORTRIGHT: HB 2799 has been heard in the House but no further action has be scheduled.

116 SEN. DERFLER: What committee is HB 2799 in?

117 CORTRIGHT: The Commerce Subcommittee on Trade and Economic Development.

120 SEN. KENNEMER: I would like to take SB 309-3 amendments and delete the section about eliminating graphic communications and then leave the rest of the list up to the Economic Development Commission.

126 CHAIR LIM: Will the Economic Development Commission make the recommendation as to the remaining key industries?

129 SEN. KENNEMER: If we are not careful we have every industry wanting to be a key industry. We need a more rational process for selecting key industries.

135 SEN. DERFLER: Could we overview SB 309-3 amendments?

136 CORTRIGHT: Continues to overview [EXHIBIT N].

143 SEN. DERFLER: Is there a cost associated with adding the graphic communications industry to the key industry list?

144 JANET JONES: The cost is more in the way the pie is divided. The more industries on the list the less resources available for the associations.

154 SEN. DERFLER: It is a matter of dividing the resources you have.

156 JONES: The graphic communications industry is somewhat included now within the professional services category.

159 SEN. DERFLER: You can add graphic communications and it would not take any additional resources?

160 JONES: To add any industry group requires more time and resources.

164 SEN. DERFLER: If the graphic communications industry was added to the key industries list would it take resources away from the other key industries?

165 JONES: Yes. The industries are always in competition for limited funds.

170 SEN. DERFLER: How has the budget cuts incurred by OEDD affected the key industries programs?

173 JONES: The key industries line item was cut by \$500,000 dollars from the request for \$2.5 million dollars.

179 JON JAQUA: Responds to committee discussion relating to the affects of budget cuts.

212 SEN. KENNEMER: Could we have Grover Simmon remind us why the graphic communications industry would like to be part of the key industries program.

209 GROVER SIMMONS: Presents rational for the graphic communications industry wanting to be part of the key industries program.

260 MOTION: SEN. DERFLER: MOVES SB 309 to the floor with a DO PASS recommendation.

262 CHAIR LIM: I would like to have a little more discussion. Do you think it is the role of the legislature to decide the make-up of the key industry list, or should it be OEDD's role to make recommendations to the legislature? I am concerned that we do not have enough information or time to study the individual request from industries to become part of the key industries program.

280 SEN. BRADBURY: It makes good sense to study the issue. The current law says "the key industries include but are not limited to ...". Is the only way an industry can be added to the list is by changing the law?

293 CORTRIGHT: Yes. The legislature has not empowered anyone to add to the list.

296 MOTION WITHDRAWN: SEN. DERFLER withdraws his motion.

297 CHAIR LIM: I believe the graphics communication industry should be part of the key industries list, but I think there are other industries that could benefit from the key industries program. I think it is prudent to have OEDD make recommendation to the legislature in the future.

304 SEN. KENNEMER: What are your thoughts as to my idea relating to the SB 309-3 amendments?

309 CHAIR LIM: Yes.

313 SEN. KENNEMER: Did OEDD want the responsibility to recommend future additions to the key industry list?

316 JAQUA: We would rather the legislature made the decision on which industries would be a part of the key industries programs. There is a measure in the House to consolidate the key industries and charge OEDD with the responsibility of providing criteria for measuring what constitutes a key industry. We are going to have problems now as a result of our budget cuts to have this analysis done without additional funding. The analysis is expected to cost \$80,000 to \$100,000 dollars.

346 CHAIR LIM: Does this bill have a subsequent referral?

349 CORTRIGHT: SB 309 does not have a subsequent referral.

352 SEN. BRADBURY: It makes sense to study criteria for measuring what constitutes a key industry.

374 SEN. KENNEMER: I think the legislature should decide which industries should be included in the key industries program since OEDD does not want the responsibility.

391 CHAIR LIM: I would like to OEDD to recommend industries based on solid criteria and then the legislature can add or delete industries from the list?

410 CHAIR LIM: I would like to add international tourism to the list of key industries.

415 SEN. KENNEMER: Would you like to have amendments drafted in preparations for the next work session on this measure.

427 CORTRIGHT: Overviews proposed amendments.

430 SEN. KENNEMER: Would these amendments create a fiscal impact. The department said the analysis would cost \$80,000 to \$100,000 dollars and they do not have additional resources to accommodate that study.

433 CORTRIGHT: I do not know.

434 SEN. KENNEMER: Do you think the amendments will add a fiscal impact to the bill?

439 JAQUA: Yes. You should be able to direct the Economic Development Commission to undertake the study without creating any fiscal impact.

456 CORTRIGHT: Do you want to add graphic communications to the list of key industries as part of this?

TAPE 66, SIDE A

025 Committee discussion relating to adding graphics communication to the list of key industries.

038 SEN. DERFLER: Could we overviews all of the proposed amendments?

039 CORTRIGHT: Overviews proposed amendments.
-On line 14 of SB 309, insert "and international" between "interstate" and "tourism".
-A new section 2 of the bill would enable the Economic Development Commission as part of its annual report to the legislature to provide recommendations on criteria for determining what a key industry would be and recommending criteria to the next legislature.
-Adds graphic communications to the list of key industries.

047 CHAIR LIM: Let's make sure the amendments are clear that the legislature will be responsible to add or delete industries from the key industries list.

054 MOTION: SEN. BRADBURY: MOVES to ADOPT the conceptual amendments on line 14 of SB 309, insert "and international" between "interstate" and "tourism", create a new section 2 of the bill to enable the Economic Development Commission as part of its annual report to the legislature to provide recommendations on criteria for determining what a key industry would be and recommending criteria to the next legislature, and adds graphic communications to the list of key industries.

056 VOTE: CHAIR LIM: Hearing no objection the amendments are ADOPTED.
SEN. DUKES is EXCUSED.

057 MOTION: SEN. BRADBURY: MOVES SB 309 to the Senate Floor with a DO PASS
AS AMENDED recommendation.

058 VOTE: PASSES: In a roll call vote all member present vote AYE. SEN. DUKES is EXCUSED.

059 SEN. DERFLER will lead discussion on the Senate Floor.

070 CHAIR LIM: Closed WORK SESSION on SB 309.

SB 673 -- Changes manner of requesting undertakings of eligible projects benefiting key industries -- Public Hearing

SB 966 -- Creates Oregon Hardwoods Commission to assist in expansion of hardwood related industries in state -- Public Hearing

070 CHAIR LIM: Opens PUBLIC HEARING on SB 673 and SB 966.

071 CORTRIGHT: Overviews Staff Measure Summary For SB 673 [EXHIBIT P].

098 CORTRIGHT: Overviews Staff Measure Summary For SB 966 [EXHIBIT Q].

100 ROBERT CANTINE: Presents testimony relating to SB 973.

154 SEN. DERFLER: Can you think of a case where the city wanted to precertify a company for and the county did not wanted to?

155 CANTINE: Responds to committee discussion.

165 MARK HUSTON: Overviews amendments to Senate Bill 673 [EXHIBIT R].

200 JOHN CHRISTIE: Presents written testimony in favor of SB 966 [EXHIBIT S].

222 ROBERT TARRANT: Presents written testimony in favor of SB 966 [EXHIBIT T].

235 JERRY HANEY: Presents testimony in favor of SB 966 and Discover Western Hardwood - Oregon's New Growth Opportunity [EXHIBIT U].

261 CHAIR LIM: Closed PUBLIC HEARING on SB 673 and SB 966.

262 CHAIR LIM: Adjourns committee meeting at 10:32 a.m.

Submitted by

Bobby Sullinger
EXHIBIT LOG

EXHIBIT A - Staff Measure Summary For SB 696, Presented by Joseph Cortright, 1 page.

EXHIBIT B - Staff Measure Summary For SB 699, Presented by Joseph Cortright, 1 page.

EXHIBIT C - Written testimony in favor of SB 699 and SB 696, Presented by Gerald Kissler, 1 page.

EXHIBIT D - Written testimony in favor of SB 696 and SB 699, Presented by John Calhoun, 3 pages.

EXHIBIT E - Minutes of the Oregon Capital Formation Committee -- January 10, 1995, Presented by Bill Campbell, 5 pages.

EXHIBIT F - As reported by Mike Francis of the Oregonian on ORTEL on 4/12/95, Presented by Bill Campbell, 1 page.

EXHIBIT G - A research slide depicting the potential cure for the AIDS virus, Presented by Bill Campbell, 1 page.

EXHIBIT H - Top Twenty Portfolio Companies, Presented by Mary Olsen, 6 pages.

EXHIBIT I - Capital Market Exposure of BC Focus Fund Managers, Presented by Wayne Embree, 1 page.

EXHIBIT J - Written testimony in favor of SB 699 and SB 696, Presented by Randall Edwards, 2 pages.

EXHIBIT K - Oregon State Treasury Oregon Investments -- June 30, 1994, Presented by Randall Edwards, 13 pages.

EXHIBIT L - A letter relating to SB 696 from Jack L. Sollis, Jack L. Sollis, 4 pages.

EXHIBIT M - Proposed Amendments To Senate Bill 309-2, Presented by Joseph Cortright, 1 page.

EXHIBIT N - Proposed Amendments To Senate Bill 309-3, Presented by Joseph Cortright, 1 page.

EXHIBIT O - House Bill 2799, Presented by Joseph Cortright, 1 page.

EXHIBIT P - Staff Measure Summary For SB 673, Presented by Joseph Cortright, 1 page.

EXHIBIT Q - Staff Measure Summary For SB 966, Presented by Joseph Cortright, 1 page.

EXHIBIT R - Amendments to Senate Bill 673, Presented by Mark Huston, 11 pages.

EXHIBIT S - Written testimony in favor of SB 966, Presented by John Christie, 1 page.

EXHIBIT T - Written testimony in favor of SB 966, Presented by Robert Tarrant, 3 pages.

EXHIBIT U - Discover Western Hardwood - Oregon's New Growth Opportunity, Presented by Jerry Haney, 12 pages.