

SENATE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

March 16, 1993 HRB, State Capitol 8:00 a.m. Salem, OR

Tapes 49-51

ORTDC Privatization Lottery Allocation

MEMBERS PRESENT: SEN. JOYCE COHEN, CHAIR SEN. STAN BUNN, VICE
CHAIR SEN. SHIRLEY GOLD SEN. JEANNETTE HAMBY SEN. KARSTEN RASMUSSEN SEN.
BILL KENNEMER SEN. JOHN LIM SEN. CATHERINE WEBBER

MEMBERS EXCUSED: SEN. BILL BRADBURY, PRESIDENT OF THE SENATE

STAFF PRESENT: JOSEPH CORTRIGHT, EXECUTIVE OFFICER JERI CHASE,
OFFICE MANAGER

WITNESSES: JOHN BEAULIEU, PRESIDENT, OREGON RESOURCE AND
TECHNOLOGY DEVELOPMENT CORPORATION WAYNE EMBREE,
DEPUTY DIRECTOR, OREGON RESOURCE AND TECHNOLOGY DEVELOPMENT CORPORATION
MARY OLSON, BOARD MEMBER, OREGON RESOURCE AND TECHNOLOGY DEVELOPMENT
CORPORATION MARY PEARMINE, MARION COUNTY COMMISSIONER

NOTE: These minutes contain materials which paraphrases and/or
summarizes statements made during this meeting. Only text enclosed in
quotation marks reports a speaker's exact words. For complete contents
of the proceedings, please refer to the tapes.

TAPE 49, SIDE A

000 CHAIR COHEN: Convenes meeting at 8:12 a.m.

SB 803 - ORTDC Privatization - Public Hearing

010 JOHN BEAULIEU: Begins presentation of overheads, EXHIBIT A.
Also submits criteria for Committee and other information (EXHIBIT B).

015 CHAIR COHEN: Overviews establishment of ORTDC.

039 BEAULIEU: Presents overheads.

149 WAYNE EMBREE: Overview of page 6 of EXHIBIT B.

227 SEN. HAMBY: Do we have a list of board members?

EMBREE: Overviews board members.

238 MARY OLSON: Overviews role of board in ORTDC.

277 SEN. HAMBY: Are you comfortable that the business sector is
actively represented in the board? This is not just academia?

OLSON: Yes.

285 CHAIR COHEN: This is a very active board.

300 JOHN BEAULIEU: We are a three-person staff;

369 EMBREE: Overviews SB 803.

TAPE 50, SIDE A

030 EMBREE: Continues to overview SB 803. Proposed -1 Amendments (EXHIBIT C) and letter outlining further amendments (EXHIBIT D) submitted.

210 Discussion of equity, voting shares, ownership, etc.

233 BEAULIEU: Holding warrants inhibits us if the company goes public because we would have to sell our warrants prior to going public.

250 EMBREE: Continues overview of SB 803.

305 EMBREE: Overviews proposed amendments (EXHIBITS C and D).

372 SEN. RASMUSSEN: Please overview Section 14 again.

378 EMBREE: Overviews Section 14. When this section was passed in 1989, there was a prohibition against a management company holding equity because under that structure it would be public employees who would be co-managing. Under the SB 803 structure, it would be a private management company.

CHAIR COHEN: It would be no different than someone managing PERS funds.

EMBREE: Common practice in private industry, is that the managers receive a compensation from holding a piece of the fund. It applies only to any private funds that are managed - not to the ORTDC fund.

SEN. RASMUSSEN: This allows you to use public funds to leverage private funds that you make money off of. 445 CORTRIGHT: There is a provision that allows the fund to invest on a comparable basis to any investments that are managed by the private fund. If the state and the private fund were to make the same investment, the private fund would split a share of its return of its fund managers but the public fund would get the entire fund without splitting it.

467 SEN. WEBBER: Who's responsible for any of the board's negligence?

EMBREE: Board remains a public body.

TAPE 49, SIDE B

044 CHAIR COHEN: "Officers" is a confusing term for the Board of Directors. We need to clarify that language.

055 SEN. RASMUSSEN: Does that limit of liability extend beyond the Board of Directors to the management company?

059 EMBREE: That would be the case for only the state fund. There would be no umbrella coverage for the private fund.

066 CHAIR COHEN: We will check with the attorney general on that. and see how explicit we will need to be.

087 SEN. LIM: Regarding the investment summary (in EXHIBIT B). Please explain the last section "closed investment loses...".

089 BEAULIEU: Closed investments are either investments that we are going to take a loss on - or the technology is sound, but the business did not develop, we have the technology, and are actively soliciting new management of the company.

100 SEN. LIM: What percentage of loan defaults do you have?

BEAULIEU: We have made 32 investments, and have written off four investments.

EMBREE: Total losses is approximately \$1.5 million.

BEAULIEU: Historically, the rule for venture capital investments is 1/3 loss; 1/3 some or part of your funds back; and 1/3 good return.

SEN. LIM: If you become independent, where will you get the private capital? Who will invest?

BEAULIEU: We will look to the same capital that other venture capital firms go to: retirement funds, utilities, private investors, etc.

122 SEN. LIM: What is the operating costs per year for this?

BEAULIEU: Less than \$480,000 per year.

127 SEN. LIM: If you are a private company, you wouldn't stay in business. This is not a sound investment. 130 BEAULIEU: There are some savings. We are active in those management companies no matter how much money is invested. There are economies for both funds in raising adequate capital for these companies. There would be little costs for that. We are already active.

146 EMBREE: Our returns on investment are such that we are paying for ourselves on an on-going basis and have been for the past three years.

158 BEAULIEU: We deliberately made an agreement with these companies to get cash flow to cover overhead, as opposed to waiting for a few years and perhaps getting a much larger return.

168 SEN. HAMBY: Understands network investments.

173 BEAULIEU: Describes Northwest Capital Network. It matches entrepreneurs needing funds with private investors - a clearing house. The Cascade Business Center is an incubator in northeast Portland. We initiated a loan program there as a way of serving all Oregonians.

202 EMBREE: ORTDC was required, under original ORS, to provide networks, etc. Also describes Oregon Enterprise Forum - mentoring system, networking etc.

227 SEN. HAMBY: Regarding adult education benchmarks in EXHIBIT B.

234 EMBREE: This is an aggregate response from 2/3 of our portfolio companies.

247 CHAIR COHEN: These are mostly brand new jobs, in brand new companies.

259 CORTRIGHT: Overviews requests: 1) have the Attorney General look at -1 amendments; 2) question on whether for the purposes of equity participation - officers 3) look at question of liability of management company.

SB 755 - Lottery Allocation - Work Session

310 CORTRIGHT: Overviews Lottery Allocation Chart dated 3/15/93 (EXHIBIT E) and lottery revenue information.

TAPE 50, SIDE B

030 SEN. HAMBY: Regarding recent Attorney General opinion.

Continued discussion.

067 CORTRIGHT: Option of creation of reserve fund. The 1987 legislature created a reserve fund. In the past, the legislature has also indicated which programs would be cut first in the event of a shortfall - distinguish between types of programs with a continuous need for revenue as opposed to grant-driven programs.

Overview of Westside Light Rail. Money up-front annually each year. 161

SEN. KENNEMER: Do we need a separate bill - for expedition purposes?

173 CHAIR COHEN: We can discuss this. Develop language to prioritize it. We will amend it into this bill. We don't have another bill in our hands to use for that.

CORTRIGHT: The language passed by the last legislature is in statute. This legislation needs to be built around that language.

207 SEN. HAMBY: There may also be a timeline on the high speed rail project.

CHAIR COHEN: We're contemplating language for that.

CORTRIGHT: I understand that federal legislation that would provide those federal funds for the high speed rail is not yet pending. Discusses the corridor designation and federal programs to finance it.

Discussion.

454 CORTRIGHT: Overview of CCTF - recipient of state's share of video lottery fund. Dedication of pay-off of COP's and set aside accumulation for paying off westside light rail and other future capital construction projects. The Governor's Budget assumes all of those funds will be extended. No explicit legislation.

TAPE 51, SIDE A

030 CORTRIGHT: Continued overview of CCTF. Regular lottery and video lottery funds are co- mingled. Discusses SB 81 on Wood and Agricultural Fund.

061 CHAIR COHEN: That could be a reserve fund.

069 CHAIR COHEN: Would like to go through EXHIBIT E and flag items that we need further discussion on.

080 CORTRIGHT: Regarding High Speed rail - the only policy statements governing expenditure of these monies are in this bill and the workforce bill. These bills should contain any policy statements you may want to explain.

106 CHAIR COHEN: Any ideas from audience on concepts included in SB

755?

110 MARY PEARMINE: Testifies in support of SB 755. Local communities see the funds as comprehensive to their economic development.

CHAIR COHEN: Adjourns meeting at 10:23 a.m.

Submitted by,

Julie Muñiz

EXHIBIT SUMMARY

EXHIBIT A - Overhead charts on SB 803, John Beaulieu, 2 pages
EXHIBIT B - Criteria for Reorganizing ORTDC, John Beaulieu, 6
pages EXHIBIT C - SB 803-1 amendments, Wayne Embree, 2 pages
EXHIBIT D - Testimony on SB 803, Wayne Embree, 2 pages EXHIBIT E
- SB 755 Lottery Allocations, Staff, 2 pages