

January 22, 1991Hearing Room 8:00 a.m.Tapes 6 - 7

Measures heard: Informational

MEMBERS PRESENT:REP. BOB REPINE, CHAIR REP. JUDY BAUMAN, VICE-CHAIR REP. MARIE BELL REP. ROD JOHNSON REP. DAVE MCTEAGUE REP. GAIL SHIBLEY REP. RON SUNSERI

STAFF PRESENT:JANET MCCOMB, COMMITTEE ADMINISTRATOR KIMBERLY BURT, COMMITTEE ASSISTANT

WITNESSES:TONY MEEKER, STATE TREASURER JON MANGIS, DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS

These minutes contain materials which paraphrase and/or summarize statements made during this session. Only text in quotation marks report a speaker's exact words. For complete contents of the proceedings, please refer to the

tapes.

TAPE 6, SIDE A

ROLL CALL: Representatives Bell, Johnson, Shibley, Sunseri and Chair Repine answer "present".

015 TONY MEEKER, STATE TREASURER: Submits overview of Oregon Veteran Farm and Home Loan Program, (EXHIBIT A).

Rep. Bauman arrives 8:08 a.m.

100 MEEKER: Continues reading written testimony, see Exhibit A.

Rep. McTeague arrives at 8:10 a.m.

145 MEEKER: Attached to my written testimony you will find my recommendation to you; I encourage you introduce a state constitutional amendment which would expand Oregon's Veteran Home Loan Program to include "individuals who have served their country on foreign soil in times of armed conflict", see Exhibit A.

Federal legislative action will also be necessary.

188 REP. JOHNSON: Has it been the history of the ODVA to grant eligibility to veterans based on certain time periods; wouldn't we just expand this to cover whatever period the Iraqi war will take?

MEEKER: The language we are suggesting narrows this; this wouldn't grant this to anyone who was in the service, but those who served on foreign soil; that is the original language, before amendment, that was used in the Korean War and in Vietnam.

This constitutional amendment would suggest that if you had received a Theater of Operation combat medal then you would be eligible.

The language currently before the US Senate is written in this fashion.

230 REP. JOHNSON: Can we rely on the Federal Government to always issue medals for everyone that serves?

MEEKER: Yes, if you look at the past, that is the case.

REP. JOHNSON: The language doesn't necessarily say that the person has received a medal.

MEEKER: This is patterned after language in the US Senate.

I leave it to the legislature to fine tune this; we will keep you posted on changes at the federal level.

265 REP. SUNSERI: The \$77 million debt to ODVA, has that been paid?

MEEKER: Yes.

REP. SHIBLEY: What is the total dollar amount of bonded indebtedness currently held by the ODVA?

MEEKER: Approximately \$4.4 billion.

REP. SHIBLEY: How does that compare with 1985?

MEEKER: It is down by about \$6 or \$7 hundred million; we have been reducing the total state debt at a rate of almost twice as fast as we are issuing it.

REP. BAUMAN: We should consider the introduction of this in concept, today and it might be helpful for the committee to send a letter of support to congress.

MEEKER: I think that could stimulate their early response; I would suggest that you write that letter.

330 REP. BELL: Was it your intention to include individuals who served in Panama as well as the Persian Gulf?

MEEKER: Mr. Mangis could tell you if there were expeditionary medals awarded for that time; if there were medals awarded they would be covered.

350 It is the intent of the language to accomplish two things; the general philosophy of the Veteran's Home Loan Program is one small way that Oregonians can honor those that are serving on foreign soil on their behalf and the second intent is to match the language at the federal level as that is essential; the two have to coincide.

The 1986 Tax Act made some definitive changes in the issuance of municipal debt or tax exempt debt and unless the Oregon constitutional language matches that at the federal level, we won't have the match we need to issue bonds.

380 REP. MCTEAGUE: How does this labor dispute impact the loan

origination?

MEEKER: The Department issued some rules that outlined methods by which we would re-start newly originated and serviced loans and then those rules were opposed by the OPEU and are currently in arbitration.

REP. MCTEAGUE: Expand on debt management practices under Ballot Measure 5.

MEEKER: The bulk of the debt issued by the State of Oregon is classified as General Obligation debt; because the general fund backs up the General Obligation debt, we can't specifically answer until the legislature has adopted the budget or there is a plan to address the changes Measure 5 has placed on school funding.

REP. MCTEAGUE: I thought that state wide property taxes guarantee General Obligation Bonds.

MEEKER: It is both; if the legislature choose to payoff the General Obligation Debt by levying a state wide property tax it would be outside the limit set in Measure 5.

475 REP. MCTEAGUE: What are you looking for out of this session of the legislature in terms of guarantees, so that you would feel comfortable enough to recommend the sale of some General Obligation Bonds?

MEEKER: This effects every General Obligation Bond; we aren't able to show a financial plan to deal with the impact of Measure 5 on state revenues; the plan hasn't been developed.

TAPE 7, SIDE A

033 REP. MCTEAGUE: So it may be until the State of Oregon adopts a new system of taxation that you may feel comfortable enough, or if we come up with a series of replacement sources or balance our budget; what is the threshold at which you start to feel comfortable enough to go back to the rating agencies?

MEEKER: As you begin to fine tune the Governor's proposed budget we will know where we stand over the next two years; you as policy makers will begin to shape Oregon's financial future.

As we see that happening we will reach a comfort zone when we will tell the credit rating agencies that we have a plan.

050 CHAIR REPINE: Where are we on bond rating?

MEEKER: We have a double A credit rating, the best being triple A; we did have an A- but our credit rating has improved, and virtually everyone in government is pleased.

070 CHAIR REPINE: Will Ballot Measure 5 have an impact on that?

MEEKER: Yes, potentially; the day after the election we placed a moratorium on the issuance of new debt; I asked the Municipal Debt Advisory Commission to begin the task of finding out how we should change current law to match Measure 5 and additionally, we went to New York and had dialogue with the credit rating agencies and the response was positive.

090 REP. BAUMAN: If we were to issue a bond our rating would drop?

MEEKER: We aren't prepared at this point to advise the credit rating agency that we have a plan.

REP. BAUMAN: Is there a problem with definitions under Ballot Measure 5?

MEEKER: Friday we took a report from the Municipal Debt Advisory Commission to your office and in that report are the definitions we are recommending to the legislature on how we define those terms.

Currently bills are being drafted and will be ready next week and we will offer them to whichever committee; yes we have answers to those definition questions and you should have them in your office.

120 CHAIR REPINE: In regard to the letters of credit we have had in the past from Japanese banks, do we still participate in that?

MEEKER: Yes we do; there is approximately \$370 million worth of variable rate debt outstanding today and that debt has letters of credit attached to it.

As long as we have variable rate debt we will have letters of credit; we have re-negotiated rates and the cost is now at market and we are satisfied with the cost of the letters of credit.

CHAIR REPINE: What will the impact or potential volume of loans be based on the broadening of the definition?

MEEKER: Oregon represents roughly 1% of the population.

154 CHAIR REPINE: Janet will be talking with Legislative Counsel to get language drafted and also to have a letter drafted that will give some direction to congress.

MANGIS: I offer the services of the Oregon Treasury in putting that together.

CHAIR REPINE: I am anticipating having that ready by Thursday for our next hearing.

170 JON MANGIS, DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS: Submits written testimony and informative material, (EXHIBIT B).

300 MANGIS: Continues with written testimony, see Exhibit B.

326 MANGIS: Measure 5 has it's most dramatic impact on the Veterans' Services Division as the majority of the program is supported by general fund dollars; it impacts our conservatorship program and also the assistance that we provide to counties to maintain veteran's services offices.

It is unfortunate as Operation Desert Shield/Desert Storm unfolds and troops start coming home, these are the offices where individuals would go to receive assistance, or survivors would go to receive assistance.

355 MANGIS: As far as Operation Desert shield goes, we are offering support

to the troops of the 206th transportation company.

There is a support group that holds meetings every Thursday evening for family members; that has grown from a small group of 35 to roughly 100 people.

We are working with the American Legion to develop POW bracelets that are being sold; the profit from the bracelets is used to help support the families if they run into problems.

410 REP. JOHNSON: What changes have been made in ODVA lending practices?

MANGIS: The Department has switched our underwriting criteria to match that of any other structured loan; it is a credit to the people that were able to manage that program.

REP. JOHNSON: Do you grant loans on prudent lending practices as opposed to any element that would be called "help the veterans"?

445 MANGIS: Yes; towards the end of 1970's the program became more of a "social lending program" and that isn't true anymore.

TAPE 6, SIDE B

026 REP. BAUMAN: While the Department of Veterans Affairs has come considerable distance in terms of the safety of it's program, unwearied legislators continue to fall into problems in terms of rhetoric with regard to the program.

MANGIS: I think that is true, but true of all of us; we are getting input from legislators that we didn't used to get, we have improved every year since 1985.

060 REP. BAUMAN: We are now projecting out 30 years to \$83.6 million loan and contract principal outstanding; is that a deficiency?

MANGIS: No; by the year 2020 we expect to have repaid all the debts outstanding to the program or the War Veterans Fund and there should be an ending balance of roughly \$133 million, but at the same time there would still be loans outstanding on the books of roughly \$80 million over and above the \$133 million.

085 REP. BAUMAN: Up until five years ago you made 30 year loans?

MANGIS: 25 to 30 years; we went out and sold bonds and every November we paid the taxes and during the next coupon cycle the individuals would repay that money to us.

In 1981 we got sued for collecting the interest on the tax in advance during the same period of time that we collected the principal back.

We raised interest rates in 1981 and 1985 and the individuals were given the choice to either increase their principal and interest payment or to extend the life of their loan.

Last year we offered all the people with variable rate loans an opportunity to change from a variable to a fixed rate and if they wanted that, they had to agree that we would bring that loan back into an amortization schedule and there were some other requirements.

Anytime a transaction takes place where we have a choice, part of that choice involves bringing the loan back to the original structure.

140 REP. BAUMAN: Non-amortizing loans will decrease then as a result of this program?

MANGIS: As that number goes down the money comes back to the War Veterans Fund.

165 REP. SHIBLEY: What percentage of the dollar amounts of ODVA goes for administration and what that percentage was in 1985?

MANGIS: Our budget today is less than what it was in 1981 and every year since and we have done that with personnel reductions and operational reductions; I could get those percentages for you.

REP. SHIBLEY: What kind of historical relationship was there between the State Treasurer and ODVA prior to 1985?

MANGIS: Not being privy to everything that went on in those years, it was probably good; the relationship with everyone was good.

REP. SHIBLEY: Do you think the treasurer would assist in putting together information for the rating agencies and other public presentations about the financial status of the program?

MANGIS: The only reason ODVA has participated is that 90% of the debt is theirs; the rating agency and the treasurer do that.

233 REP. SHIBLEY: Where are the real estate owned properties located geographically?

MANGIS: The Portland metro area has the majority of the ODVA loans initially; today that has changed a little and they are scattered about the state at this point.

255 REP. SHIBLEY: What percentage of outstanding loans are for farm use?

MANGIS: 10% or 11% of the 10 - 11,000 farms.

295 REP. BELL: What was the rationale behind the contracting out?

MANGIS: We thought that it was best for the program to keep our small loan processing staff in Salem, and also contract with private lenders.

This keeps our costs down and represents a state wide delivery system for us at a very low cost.

We had no intention of opening offices throughout the state of Oregon, but we needed a delivery system; we thought it was the smart way to do business and we have had wonderful cooperation.

385 MANGIS: You are welcome to make calls to anyone at our agency and we invite you to stop by and visit; we have a good program and good people.

400 CHAIR REPINE: Thursday we will meet at 8:30 a.m. rather than 8:00 a.m.

REP. SUNSERI: Are we pursuing the letter to congress and drafting the bill from the committee?

CHAIR REPINE: Yes, we will plan on having those here Thursday.

422 CHAIR REPINE: The committee is adjourned. (9:25 a.m.)

Submitted by, Reviewed by,

Kimberly BurtJanet McComb Committee AssistantCommittee Administrator

EXHIBIT SUMMARY:

- A - Written testimony and informative material submitted by MEEKER, pp 6
- B - Written testimony and informative material submitted by MANGIS, pp 150