

HOUSE COMMITTEE ON LEGISLATIVE RULES AND REAPPORTIONMENT

June 3, 1991 Room 350 3:30 p.m. Tapes 47 & 48

MEMBERS PRESENT: Rep. Greg Walden, Chair Rep. Peter Courtney,
Vice-Chair Rep. Ray Baum Rep. Ron Cease Rep. Beverly Clarno Rep. Carl
Hosticka Rep. Bill Markham Rep. Randy Miller

MEMBERS EXCUSED: Rep. Tom Mason Rep. Fred Parkinson

STAFF PRESENT: Greg Leo, Committee Administrator Carol Wilder,
Committee Assistant

MEASURES CONSIDERED: Introduction of LC 4119 HB 3580 -
PH/WS HJM28 - PH/WS

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 47, SIDE A

007 CHAIR WALDEN: Calls the meeting to order at 3:35 p.m. Opens a
public hearing on HB 358 0.

HB 3580 - ESTABLISHES STRATEGIC FINANCIAL RESERVE FUND, PUBLIC HEARING

015 TONY MEEKER, OREGON STATE TREASURER: This bill is extremely simple.
When you discuss credit issues with the folks on Wall Street, they ask
questions that are long-range in nature because when you issue bonds you
issue them for long periods of time, not just for two years. Because
Oregon was handed a rather difficult financial issue on November 6th,
1990, you have to have very specific answers to the questions of how you
plan to deal with it. Because there is not a developing strategic plan
to deal with this problem long-range, it becomes apparent that there is
a fallback position and that fallback position is a strategic reserve
fund that is equal to one year's worth of principal and interest and net
debt and that's what this bill is. It says for the next five years as
Oregon sorts out its fiscal future we have in reserve a chunk of money
that everybody understands. In view of the status of the Legislature at
this point in time, I visualize the train is not only out of the
station, but it's headed down the track.

050 REP. MARKHAM: What is "net debt"?

051 MEEKER: All three of the bond rating services have a calculation that they go through when they analyze general obligation bonds. They look at the historic method of principal and interest payment and they look at those principal and interest payments that are directly related to General Fund contributions appropriated by the Legislature to the specific issuing agencies. Each rating agency has a net debt calculation for Oregon. On May 6 we wrote a letter to the co-chairs of the Ways and Means Committee describing that Oregon's net debt is \$758 million, not according to me but according to the rating agencies. You use a simple calculation of current tax-exempt debt rates and that's how you reach \$83 million. This is a calculation that the rating agencies use to analyze states and their credit rating.

070 REP. MARKHAM: What's the \$83 million, that's for strategic reserves?

072 MEEKER: That is correct. That is the equivalent of one year's principal and interest on net debt at 7%.

074 CHAIR WALDEN: Is it your feeling that if this were enacted into law that the bond markets would react favorably?

080 MEEKER: I think they would react very favorably to this. In fact, I know they will; I've talked to them.

083 REP. MARKHAM: How much of a bump in the lowering or raising the rating would it take to pay for \$83 million?

085 MEEKER: It would hold it.

086 REP. MARKHAM: When I say raise it, I don't mean more across the state; I mean less across the state.

088 MEEKER: The state of Oregon will not get an increase in the credit rating under any circumstances over the next three to four years until Measure 5 is sorted out. In fact, we run the risk of losing it. It's my argument to the rating agencies that this will hold it in place as opposed to putting us on credit watch or rate reduction.

097 REP. MARKHAM: This bill will set aside out of the General Fund \$83 million into an account that you hold.

098 MEEKER: That's correct.

099 REP. BAUM: We are not going to confuse this with the Strategic Reserve Fund which was created in the Lottery.

103 MEEKER: This is the Article 11, Strategic Reserve Fund.

108 REP. HOSTICKA: If this fund were set up, what would be the difference between having this fund with \$83 million in it plus a \$52 million ending balance or having \$132 million ending balance? As long as the state has enough cash on hand, our expectation of cash on hand to service its debt.

115 MEEKER: There is a significant difference between ending balance as an argument to the rating agencies and a fund that's been set aside.

The significant difference is that the passage of a law demonstrates political will, because in order to pass a law you generally have to have the republicans and the democrats support it in both bodies of the Legislature and the Governor's signature. It demonstrates political will. It also sets aside for a longer period of time than some euphoric ending balance definition. So there is a significant difference. It sends a signal that is totally different than saying we just won't spend money that we think is going to come. This appropriates the money to a special account for specific purposes and it's a demonstration of willpower by the Governors as how they plan to deal with the situation.

133 REP. HOSTICKA: The state has \$83 million on hand at any given time. Generally, when we appropriate money, we're appropriating money that we really don't have. We're giving people authority to spend money that we think is going to come in as we project the figures. If it works, then fine. If, instead of it coming out of the so-called surplus carriers, we set this up and carry a lower ending balance, how would that affect the objective you're trying to pursue here?

145 MEEKER: Those are choices that the Ways and Means Committee would have to make. I have no position either way. I do believe that setting the funds aside in this specific account sends a signal that's very strong and very significant to the rating community and to the people of Oregon. As far as cash, you have \$389 million in cash on June 30. That's probably double the normal ending balance.

160 REP. HOSTICKA: What I'm saying is, \$300 million is the ending balance number. How much is on deposit if the State of Oregon wanted to liquidate its assets and turn them into \$100 bills, how much could you put on the table that we're carrying in the Treasury someplace. We make budgets based on income coming in and money coming out and yet on some point in time we probably have a balance in our checking account so I can use our analogy. What's our usual balance in our checking account?

165 MEEKER: That is an impossible question to answer. I can go back in time. The amount goes up and down all the time.

170 REP. HOSTICKA: Is it more than \$83 million?

172 MEEKER: Most of the time it is not.

174 REP. MARKHAM: The tighter you keep that, the more you have working for you.

175 MEEKER: You don't want any. You want it all invested.

177 REP. MARKHAM: Is this plowing new ground, this Strategic Reserve Fund? Have other states done this?

179 MEEKER: I don't know whether other states have done it or not. The truth is that the people of Oregon are plowing new ground for us. When they passed Measure 5, they changed the world and it requires us to respond to it in a like way. We need to help deal with that and by setting this money in a bank account while we go through this difficulty is good common sense judgement.

185 REP. CEASE: Would you give us a rough idea of what kind of money in a year's time could you make off this particular fund?

190 MEEKER: Roughly, current short-term rates are in the 7-7.1% range.

If you take \$80 million, that's \$5.6 million a year.

193 REP. CEASE: What's the value of an account like this stabilizing your credit rating? Under what kinds of conditions and in what ways, you indicated that the money couldn't be expanded if you had this account without approval from the Legislature or the Emergency Board, under what kinds of conditions do you think that might happen?

202 MEEKER: I must be very careful how I answer this question because bond lawyers have cautioned me to talk about exclusively using it for principal and interest payments because it's an issue that bond lawyers are concerned about. Broadly speaking, either the Legislature or the Emergency Board would have the authority under this particular act to deal with fiscal difficulties of a fairly broad nature, including principle and interest payments on bonds, other debt liquidation matters, or obligations that arise that are very difficult in nature.

215 REP. CEASE: (Inaudible)

217 MEEKER: If you demonstrated fiscal crisis that would call for the extraction of the money, that's what you've put in there for and why it makes sense to explain to the bar rating agencies, we're ready in Oregon with altering fiscal conditions.

220 REP. CEASE: (Inaudible)

225 MEEKER: We're basing our financial future on an estimate. Each May you make an estimate of what the future's going to be like on tax receipts and use appropriate money accordingly. There's nothing to say that our current economic forecasts are wrong. They've been wrong in other places. Obviously, you come back and you cut budgets, but if you're unable to deal with that in an appropriate fashion, then it makes sense if we run into fiscal emergencies including debt and principal and interest payments on debt you come to the E-Board and you satisfy the problem.

240 REP. CEASE: Assuming you don't have the money which you don't at this point, how would you handle the issue otherwise?

245 MEEKER: I don't plan to issue any bonds.

247 CHAIR WALDEN: Is this amount sufficient in reserve to allow you to feel comfortable in issuing bonds?

250 MEEKER: There are some other matters that I think are important as well. Some of those are moving forward, so this is one of three issues that I think are imperative in order for us to logically tell people who would buy our debt that we're dealing with our circumstances. This is a very large part of the problem.

255 CHAIR WALDEN: But this won't satisfy it completely?

257 MEEKER: I've communicated with you on a number of issues. I've assumed that you got my mail, so there are a couple of other issues that are being addressed.

262 REP. HOSTICKA: What kind of G.O. debt do we have in this state?

264 MEEKER: There's a little over \$4 billion in general obligation bonds. 92% of all Oregon's debt outstanding is the Veterans' Home Loan

Program.

267 REP. HOSTICKA: Is that G.O. debt?

269 MEEKER: It most certainly is. The reason rating agencies look at general obligation bonds and look at your General Fund and how they're dealt with, they remember that in 198 9 the Legislature appropriated \$76 million to straighten up the Veterans' Home Loan Program. Even though there's principal and interest payments to support the Veterans' program, it has a direct call on the General Fund if anything goes funny. So you can understand why I'm concerned about the future of 30-year bonds when we have no developing strategy with Measure 5.

280 REP. HOSTICKA: If that's where it all goes, I say don't sell any more.

285 MEEKER: There's the Department of Higher Education's capital construction program that's all funded by G.O. bonds. There's the Department of Environmental Quality.

290 REP. HOSTICKA: My question is, what is it that we're doing with G.O. bonds that we should be concerned with?

294 MEEKER: There are seven or eight programs, Energy, Department of Environmental Quality, Higher Education, Water Resources, Housing, certificates of participation are virtually built in almost every budget there is in state government.

296 REP. HOSTICKA: Are you talking about all of Article 11 A-J?

298 MEEKER: Revenue bonds, G.O.'s, and COP's. The revenue bond program is almost exclusively in highways and some housing. All the rest are G.O.'s.

299 REP. HOSTICKA: But they're all under the authority to those sections of the Constitution.

300 MEEKER: Yes, Article 11.

302 REP. HOSTICKA: Which also have a kicker on the bottom that we can levy a property tax if necessary.

305 MEEKER: Yes, you can do that, although it's never been done.

306 REP. MARKHAM: Where do those COP's come in this?

308 MEEKER: Certificates of participation are statutorily authorized instruments of debt that call on the General Fund for its payment. Anticipated to be issued this coming biennium are \$57 million worth of certificates of participation. The way the Ways and Means Committee has built the budget, they built in COP purchases of computers and all kinds of equipment. I've written these letters to the co-chairs frequently saying that we've got to have some kind of insurance policy here. They are built in to the budget.

315 REP. MARKHAM: Aren't they retired every other year when the Legislature gets together?

317 MEEKER: No, they're issued from five to seven years.

319 REP. MARKHAM: I mean the retirement of them, as an appropriation for the rent.

321 MEEKER: For some of it, but they are backed by the General Fund. Veterans's home loans are financed with principal and interest payments from the mortgages, but when the program runs into trouble, guess who gets to pay -- the General Fund or a statewide property tax.

325 REP. MARKHAM: Where's the \$57 million going to be spent in COP's in the next year or two?

327 MEEKER: I will provide you with the list.

329 REP. MARKHAM: Two years ago when they authorized that spending they did it and just haven't started construction yet?

332 MEEKER: Two years ago the Legislature authorized \$167 million worth of COP's.

334 REP. MARKHAM: And we're already out there on those?

336 MEEKER: Those are all completed. They were completed prior to the passage of Measure 5.

337 REP. MARKHAM: But now we've got \$57 million more that I'm not familiar with that we're supposed to be committed to.

338 MEEKER: Let me be very clear. I currently have a moratorium on certificates of participation to be issued over the next two years, so even though they've been authorized in the budget process they may or may not be issued. If we don't take some action, they won't be. They're all minor projects.

350 CHAIR WALDEN: Does the \$83 million that you're asking us to set aside take into account the interest and principal for one year on these proposed issuances or does this need to be increased?

352 MEEKER: This number was very carefully calculated on a valuation that was done by others, not my office. This is an evaluation that was accomplished by Fitch, Moody's, Standard and Poore's. This number is adequate to take care of what's the net debt calculation for the state of Oregon.

360 CHAIR WALDEN: Does that take into account the \$57 million in COP's you said are being ...?

362 MEEKER: Yes, it does.

363 REP. CARTER: We have so indebted our future in this state in COP's, with general obligation bonds that I am absolutely shocked that this Legislature as a body are not more on top of this issue of letting bonds. We've just got to be more responsible than we have. I was shocked that in the last session when we let so many bonds go. Even though we have a bonding commission or authority, the Legislature needs to receive a report from them in terms of our level of indebtedness to this point and also where are we in terms of the rating and also the General Fund that this spends money from each year. It does not make sense for us to continue this.

388 CHAIR WALDEN: Some of us voted against COP's last time.

390 MEEKER: You have that report. You can find it in the Governor's budget documents. You will find that over the last four years we have reduced Oregon's total debt by nearly \$1 billion, so total outstanding debt is going down. Keep in mind that in the early 198 0's through the Oregon Department of Veterans' Affairs, they were issuing as much as \$1 billion a year and so it's not hard to reduce your total outstanding debt if you haven't issued any ODVA bonds since 198 5 and there haven't been any issued. We are reducing our total outstanding debt as much as \$300 million per year. Even with the proposed debt that's in this biennial budget before you, we will continue to reduce our total outstanding debt by about \$300 million a year. In fact, we're preparing to make a call in 1993 which is in this fiscal year of a significant amount of outstanding debt. It's our first call date. To respond to your question, I think for the last five years, Oregon, because of the recession, has done a good job of reducing its outstanding debt and will continue to do that.

415 REP. COURTNEY: I'm curious about the procedure. This will require an \$83 million appropriation from our General Fund which means the Legislature must approve it and the Ways and Means must allocate it, is that right?

418 MEEKER: Yes.

419 REP. COURTNEY: Are they going to do that?

420 MEEKER: Is the budget committee going to do that?

421 REP. COURTNEY: Yes.

422 MEEKER: I don't know.

423 REP. COURTNEY: This is June 3rd. Why is this coming in now? What I'm concerned now is you have a Governor wanting a \$200 million ending balance, although we had a better forecast than we anticipated. Why is it coming in now as opposed to much earlier in terms of the budgetary process?

427 MEEKER: The idea and the concept was suggested to the Legislature in March. I went around and talked to lots of people and suggested this strategy. I consistently asked about vehicles, etc. Frankly, the end of April I decided that it wasn't happening so I caused the bills to be drafted which takes awhile. They've been around for over a month. They've not been in written form except for about ten or fifteen days. I don't know that there's any delay here. It's just that things haven't developed the way that some of us think they should have.

440 REP. COURTNEY: That was my question. The Ways and Means co-chairs have it on one of their lists, this \$83 million?

442 MEEKER: I can't answer that. I've never seen that number.

445 REP. COURTNEY: This is a substantial sum of money.

TAPE 48, SIDE A

010 MEEKER: The \$83 million has been around for a long time as far as a concept. It was apparent to me on May 15 when another \$70 million showed

up that it ought to be fairly easy to get, but as you know there's a feeding frenzy that occurs on the 16th and thereafter, and that feeding frenzy has done a fairly decent job of consuming every available dollar known to man. I must advise you that the voters are not appreciative of that and I think we'll all see that in the future.

012 REP. CARTER: My question has to do with Section 1, line 7, "moneys in the fund shall be used solely for those purposes determined by the State Treasurer to be important for the preservation of the fiscal integrity of the state"; that causes me some concern. Tell me what you mean.

020 MEEKER: What would you like it to say, Rep. Carter?

021 REP. CARTER: What does it mean?

022 MEEKER: I have no pride of authorship as to who asks. Along with me you can add somebody else. We had to start with something.

024 REP. CARTER: I just wondered what it means.

025 MEEKER: It means that we're trying to focus on, in addition to other difficult financial matters, bond principal and interest payments.

030 REP. CARTER: Even though the process says you either come to the Legislature or the Emergency Board to spend these dollars, it appears to me what it means is that you determine how those dollars are spent, and that's what I'm trying to ask.

037 MEEKER: That is not the intent here at all. The final decision is made by the people who have the power to appropriate and that's the Ways and Means Committee of the Legislature. If you came to me regarding this fiscal situation, this is enough to get something started.

050 REP. CARTER: Could the Legislature access these dollars without your saying Aye or Nay?

052 MEEKER: Let's approach that logically. The reason why you have that kind of language is because as the person who is responsible for signing the bonds then it makes sense that there is difficulty in principal and interest payments along with other fiscal issues that I be the one that runs up the alarm signal.

055 REP. HOSTICKA: Then following that line of reasoning, would it hurt the bill if we rewrote Section 3 to say, "Moneys in the fund shall be used solely for the preservation of the fiscal integrity of the state..."?

065 MEEKER: Take out the words, "State Treasurer"?

067 REP. HOSTICKA: Take out the words, "those purposes determined by the State Treasurer to be important...". It still leaves in Subsection 4 which says the State Treasurer has to apply for permission to expend the moneys.

067 MEEKER: I would much rather that you add the Governor because you need to have someone ring the alarm system, so if you want some comfort, add the words, "the State Treasurer and the Governor". Then we have to work together.

073 CHAIR WALDEN: That would be on line 7, is that correct, Rep. Hosticka?

076 REP. HOSTICKA: That's correct.

080 CHAIR WALDEN: Does the Governor get involved in fiduciary matters like this elsewhere in the state?

082 MEEKER: There's an automatic suspicion in this building that I get sick and tired of from time to time and that's the implied partisanship. There is none here. So let's just resolve it. Put the Governor in here too. One's a democrat; one's a republican. That takes care of it.

085 REP. CARTER: I resent what you just said. My question was very innocent in asking. It doesn't have a damn thing to do with you as Treasurer or anything to do with republican or democrat. The issue was asked, could the Legislature access the dollars. The Legislature, not the Executive Department and that includes both you and the Governor. It has nothing to do with that. The House is governed by a republican leader. It doesn't have anything to do with partisanship at all.

095 MEEKER: I didn't say that you were the one that I was sick and tired of. I'm sorry.

097 REP. CEASE: This whole question of the preservation of the fiscal integrity of the state, I guess there is an issue who is responsible for that. Is that really the role of the Treasurer? What is the Treasurer's role in our system?

103 CHAIR WALDEN: It looks to me that he ends up putting his TM on most of the bonds that go through.

107 REP. CEASE: It's his job to do all that, but this is (inaudible) the fiscal integrity of the state is a major responsibility. Would it be fair to say that's the major responsibility of the Governor, the Legislature, the whole ball of wax? Everybody's responsible for that, aren't they?

110 MEEKER: I'll bet if we had a shortfall, we'd know who was responsible real quick regardless of party.

112 REP. CEASE: I'm not sure that follows.

115 MEEKER: The language in Section 3 was written by bond attorneys, not by me. It was done specifically to address a very delicate issue called arbitrage rebate. It has to do with the tax ability or nontaxability of bonds issued by municipalities.

HJM28 - MEMORIALIZES CONGRESS TO ENACT POW/MIA TRUTH BILL, PUBLIC HEARING

133 CHAIR WALDEN: This bill urges the Congress to appoint a select committee to assist the Foreign Relations Committee regarding the issues of POWs and MIAs still believed to be alive in Southeast Asia. This comes to us at the request of the Speaker. There's a nationwide effort among the states to pass these sorts of memorials.

There being no one to testify, he closes the public hearing on HJM28.

160 MOTION:Rep. Markham moves LC 4119 to be introduced and sponsored by the House Rules and Reapportionment Committee.

VOTE:In a roll call vote, the motion carries, with all members present voting AYE. Reps. Mason and Parkinson were excused.

175 CHAIR WALDEN: Opens a work session on HJM28.

HJM28 - WORK SESSION

177 MOTION:Rep. Courtney moves HJM28 to the Floor with a Do Adopt recommendation.

VOTE:In a roll call vote, the motion carries, with all members present voting AYE. Reps. Mason and Parkinson were excused.

195 The committee takes a short recess.

197 CHAIR WALDEN: Opens a work session on HB 3580.

HB 3580 - WORK SESSION

205 MOTION:Rep. Hosticka moves HB 3580 to Ways and Means Committee without recommendation.

215 MOTION:Rep. Baum amends Rep. Hosticka's motion by moving HB 3580 to the Floor with a Do Pass recommendation and rescinding the referral to Ways and Means.

217 REP. HOSTICKA: What's the purpose of the rescinding?

219 CHAIR WALDEN: So that it will go straight to the Floor, pass the House if appropriate, and go over to the Senate and down to Ways and Means. Because of the timeliness of the session, the idea is to get the House bill out of the House, over to the Senate where it can go to Ways and Means at that point.

220 REP. HOSTICKA: I oppose the amendment because I believe that something of this magnitude needs to be dealt with by Ways and Means as they look at the total financial picture of the state. If we send this to the Floor from this committee which has not had an overview of the state budget or is not charged with discussing the overall financial situation of the state, than we're essentially pre-empted that process for a very large sum of money which nobody has an idea of how it fits into the overall budget picture. I don't have any particular objection to setting up a Strategic Financial Reserve Fund. I don't know if the \$83 million is the proper number. I don't know whether some other amount. I would oppose sending it to the Floor with an appropriation in it.

235 REP. CARTER: I am absolutely surprised that we would want to rescind this motion for referral to Ways and Means. It just seems irresponsible to me as a committee that we don't have any direction and knowledge of the condition of the state's budget and yet we would send this bill straight to the Senate. I'll be voting no as well.

250 CHAIR WALDEN: We are voting to amend Sen. Hosticka's motion with Rep. Baum's motion which would be to rescind the Ways and Means referral and to send the bill to the Floor with a Do Pass recommendation.

VOTE: The motion to amend carries. Reps. Carter, Cease, Hosticka and Courtney voted NAY. Rep. Mason was excused.

265 REP. HOSTICKA: Withdraws his motion.

MOTION:Rep. Hosticka moves to delete the number, "\$83 million", on line 15 and insert a blank.

The committee takes a few minutes to discuss parliamentary procedure.

325 REP. HOSTICKA: Withdraws his motion.

MOTION: Rep. Hosticka moves that the motion to send the bill to the Floor be amended to state that we will send the bill to the Floor less lines 14-16. The effect of that motion is to delete Section 2 from the bill.

335 CHAIR WALDEN: I would resist that. I think the person most able to provide us with the information of what's needed is probably the Treasurer and his actuaries, who put that figure into the bill.

VOTE:In a roll call vote, the motion fails with Reps. Baum, Clarno, Markham, Miller, Parkinson, and Walden voting NAY. Rep. Mason was excused.

(The motion before the committee now is to send the bill to the Floor with a Do Pass recommendation with rescinding the referral to Ways and Means.)

VOTE:In a roll call vote, the motion fails with Reps. Carter, Cease, Hosticka and Courtney voting NAY. Rep. Mason was excused.

352 CHAIR WALDEN: Adjourns the meeting at 4:35 p.m.

Submitted by: Reviewed by:

Carol Wilder Greg Leo Assistant Administrator