

House T&E Committee January 30, 1991 Page HB 2063 - PH & WKS HB 2064 - PH & WKS HB 2065 - PH & WKS HB 2066 - PH & WKS HB 2067 - PH & WKS HB 2068 - PH

HOUSE LEGISLATIVE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

January 30, 1991Hearing Room 343 8:00 A.M.State Capitol Salem, OR

Tapes 25-28 Rules Adoption LC Introduction EDD Briefing Film & Video Section Business Finance Section Key Industries Lottery Administration Legislation (6 Bills)

MEMBERS PRESENT: REP. RAY BAUM, CHAIR REP. JERRY BARNES REP. MARGARET CARTER REP. CEDRIC HAYDEN REP. VERA KATZ REP. DAVE MC TEAGUE REP. BOB PICKARD

MEMBERS EXCUSED:

STAFF PRESENT: JOSEPH CORTRIGHT, EXECUTIVE OFFICER TAMIRA MILLER, POLICY ANALYST JERI CHASE, OFFICE MANAGER

WITNESSES:STEVE PETERSEN, DIRECTOR, ECONOMIC DEVELOPMENT DEPARTMENT KAREN RUNKEL, ACTING MANAGER, FILM AND VIDEO SECTION, ECONOMIC DEVELOPMENT DEPARTMENT MARK HUSTON, MANAGER, BUSINESS FINANCE SECTION, ECONOMIC DEVELOPMENT DEPARTMENT JANET JONES, MANAGER OF POLICY RESERCH AND KEY INDUSTRY PROGRAM, ECONOMIC DEVELOPMENT DEPARTMENT JIM DAVEY, DIRECTOR, OREGON LOTTERY STEVE CAPUTO, DEPUTY DIRECTOR, OREGON LOTTERY BILL JOHNSON, CAPTAIN, OREGON STATE POLICE/ASST. DIRECTOR OF SECURITY, OREGON LOTTERY

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 25, SIDE A

000 CHAIR BAUM: Convenes the meeting at 8:00 a.m.

Adoption of Committee Rules

003 CHAIR BAUM: Summarizes new rules to allow for separate committees (House and Senate). (EXHIBIT A).

013 MOTION: REP. PICKARD moves to adopt the Committee Rules (EXHIBIT A).

014 VOTE: There being no objection, the rules are adopted.

Introduction of LC 2478

017 CHAIR BAUM: Summarizes LC 2478 - Lottery Allocation Bill (EXHIBIT

B).

021 MOTION: REP. PICKARD moves to introduce LC 2478 as a Committee bill.

VOTE: There being no objection, LC 2478 is introduced as a Committee bill.

EDD Briefing

034 STEVE PETERSEN: Begins EDD briefing. There will be presentations on the Film and Video, Business Finance, and Key Industries activities.

040 KAREN RUNKEL: Begins written testimony regarding film & video section (EXHIBIT C). Also submits Film and Video Office Presentation (EXHIBIT D).

108 REP. PICKARD: In reference to "our indigenous people in the private sector", what kind of a private sector business has been built up in this industry?

115 RUNKEL: Throughout Oregon there are major businesses that include location firms, production companies, and a number of auxilliary businesses that work with us.

122 REP. PICKARD: How much of the income generated in Oregon is attributable to the private sector?

126 RUNKEL: Approximately \$64 million that we know of at this time - it could be more. This is approximately one-fourth of the total.

133 REP. PICKARD: You talk about Oregon's advantages. What happens if your department would not exist? Given the private sector involvement, the geography, and the decline of other locations, we would only become more desirable. Can we accomplish the same economic benefits whether your division exists or not?

146 RUNKEL: There is a great deal of competition among states in the form of free services offered to attract. If the private sector could provide these services, that may work. Other scenic locations are available in Washington, Colorado, Montana, etc. We need to continue to promote ourselves.

153 REP. PICKARD: How does the network of film offices work?

156 RUNKEL: Regional coordinator networks have been set up made up of convention and visitor bureau people, chamber of commerce people, economic development people, etc., that are volunteers. I call regional coordinators when a specific type of location has been requested and the volunteer network sends the requestor the information.

170 REP. PICKARD: With no staffing changes, major strides have been made in attracting business. Why do you need another staff person?

188 PETERSEN: Additional staff for the Film and Video Division is not part of the EDD budget request. This is an additional staff person requested by the Film and Video Board.

199 REP. BARNES: Do you conduct exit interviews with the companies that use Oregon as a location that provides you with useful information about

the positive and negative aspects of business here?

208 RUNKEL: We do an exit interview for major feature films. Follow-up on the satisfaction of companies who do commercials here are conducted by the regional networks. We also have latter contact if they return. It is very important for us to track this.

235 MARK HUSTON: Begins presentation of "Overview of the Business Finance Section of the Oregon Economic Development Department" (EXHIBIT E).

370 REP. KATZ: Give us an example of a success and a failure.

373 HUSTON: We made a loan in Northeast Portland for Coast Industries - a janitorial service business. This is the largest black-owned company in the state. They were having financial difficulties and needed restructuring as a package. It is not a typical company - a typical company is more profitable and is looking for expansion. We worked with the Portland Development Commission, two different banks, and the Small Business Administration, and provided a restructuring of their financial condition and funds for equipment. They changed managers and the Finance Committee that reviewed the package were very comfortable about the company's chances for success and they have had a very successful turnaround.

409 HUSTON: One loan that has not been successful was a loan to an RV Park on the Hells Canyon. This was difficult, but the Finance Committee decided to do it since there was a great deal of private funds being committed. During the first year of operation the major road to the facility was washed out. The financial impact was devastating to the company and they defaulted on their loans.

447 REP. MC TEAGUE: You commented that most loan recipients are profitable and want to expand. Why, if that is the case, can't they obtain financing from other sources?

458 HUSTON: Small businesses have access to commercial lenders for capital. These lenders are comfortable funding 50-70 percent of a project. The business may only have 10 or 20 percent to put into the project - but this drains their equity. What we do is provide the gap financing of 10 - 30 percent in a subordinate position. This leverages the bank, provides long-term financing for the company, and puts them in a better position for future growth and job creation.

TAPE 26, SIDE A

032 REP. MC TEAGUE: The gap exists because the business owner does not have enough equity?

034 HUSTON: That is a problem.

036 REP. MC TEAGUE: I am interested in if the commercial banks are fulfilling their obligations under the Community Reinvestment Act or if we are filling in for their responsibilities.

046 HUSTON: I cannot respond to that. There is a demand to fill that financing gap.

053 CHAIR BAUM: It is my intent to review this program in more depth. I want to be able to review the issue of banks redlining in rural areas

and Northeast Portland.

064 REP. KATZ: The question that REP. MC TEAGUE asked is the question to ask on all of the business finance programs. For years we were looking at small business to help create jobs. The focus of economic development may be different now in different areas with different populations for different purposes where it may be legitimate to loan 20 or 30 percent of state capital for, for instance, home purchase. Think about that. If you had to start all over again, is this were you would put state resources or are there different ways to stimulate the economy?

085 HUSTON: Continues presentation of EXHIBIT E (Oregon Business Development Fund).

123 HUSTON: Continues presentation of EXHIBIT E (Industrial Development Revenue Bond Program).

156 CORTRIGHT: What is the status of the participation fee and how much did the State raise during the past biennium from this participation fee?

158 HUSTON: The intent of that participation fee was to provide a pool bond program but the department was able to do without the fee being charged. There is still a 1/2 percent closing charge.

179 CORTRIGHT: For the past few years there has been no participation fee charged on these bonds?

180 HUSTON: That is correct. As soon as we were able to structure the Composite Bond Program without using the participation fee we did not continue to charge it.

186 HUSTON: Continues presentation of EXHIBIT E (Capital Access Program).

224 REP. PICKARD: You are not in the Governor's Budget?

228 HUSTON: That is correct.

231 REP. PICKARD: I would like to begin to think about other creative uses of lottery funds.

244 REP. KATZ: My question to the department is if you had to do this all over again, what would you do and where would your priorities be?

250 REP. MC TEAGUE: Did you make a request for additional funding for OBDF in the Governor's Budget and how much did you request?

255 PETERSEN: We requested an additional \$2 million. This was based on the number of loans we had received.

268 REP. MC TEAGUE: Do you have an estimate of how many requests you have received vs. what you have been able to fund?

272 HUSTON: We have had available funding for most loans that have been requested during most of the program's operation. We have run out of funds occassionally.

277 REP. MC TEAGUE: If you do not receive additional funding this

biennium, do you expect a shortfall of funds to make loans?

279 HUSTON: As it stands now, yes.

283 REP. MC TEAGUE: Then we will need to know the specifics on that later. If we want to do something for this, it is up to us. EDD has to support the Governor's budget request because they are Executive branch employees. Their creativity was limited to what they requested be included in this budget that may have been eliminated through the review process.

320 REP. BARNES: Is it possible for us to ask to see their original budget submission?

322 REP. KATZ: That is why we have staff and why we have worked to make the Legislature strong. REP. MC TEAGUE is correct. Unless we have our staff on this side listening to what we want, we will never get that information.

340 CHAIR BAUM: I want to reserve more time to review the original EDD request for programs. Their request was substantially different from what came out in the Governor's budget.

355 JANET JONES: Begins testimony regarding the key industries program (EXHIBIT F). Also submits folder of information (EXHIBIT G).

TAPE 25, SIDE B

035 JONES: Continues presentation of EXHIBIT F.

050 CHAIR BAUM: Where is the funding for key industry development included?

055 JONES: Staff is General Fund. The funds used to work with the industry are lottery funds - we have used lottery funds from the Strategic Reserve Fund and the Forest Products Opportunity Funds.

060 REP. CARTER: You have specified four industries that you have worked with. Of these, how many will only maintain themselves as long as they received state funding?

066 JONES: It is our hope they will continue. We have worked as a catalyst and will continue to nurture them. There are projects that have a beginning and an end and we hope the project acts as a spark to the industry. We don't have enough experience yet to know exactly how they will do. The Software Association is a good example of an organization that has grown and built a financial foundation that will continue without state funding.

084 REP. CARTER: Are you using the software industry as a model for others and what will you do about measurement?

086 JONES: We will. There are industries that may do this on their own without our help. Our role is to nurture industries that request assistance. We measure the success through the number of partners it achieves, the number of companies, the ability to grow as an organization, attendance in functions, funds attracted through membership, outside funding, and sponsorships, etc. The industry sets their own goals and we try to help them achieve their goals.

099 REP. CARTER: In Europe, we saw that industry played a greater role. The companies that were industry-involved were the companies that were doing the best. There was not as much public participation. Industries were strong enough to cultivate and maintain strength. I want to see more of that in Oregon. It is vital that the industry take an interest in itself.

111 REP. KATZ: If we use the high skills model, a large piece of it is bringing industries together to develop a career ladder of professional degrees. Community Colleges try to do this but it is not consistent or statewide. EDD has a base going that we may be able to build on.

146 JONES: Continues presentation of EXHIBIT F.

169 REP. HAYDEN: If we aid the environmental industries, do we suppress other industries?

175 JONES: It is not our intent to suppress any industry. The goal of this program is to improve the economic climate for all business sectors. We particularly want to help those industries that either market globally or employ highly-educated employees. We want to improve the overall standard of living for all Oregonians. The thinking in the environmental industry is that we already have companies that have particular expertise being marketed worldwide and there are significant opportunities here with federal money being invested.

186 REP. HAYDEN: Some industries are natural competitors. If you enhance one you must diminish another.

191 CHAIR BAUM: Recesses the meeting for ten minutes at 9:15 A.M.

193 CHAIR BAUM: Reconvenes the meeting at 9:25 A.M.

HB 2063 (Lottery Statute Changes) - Public Hearing

223 CORTRIGHT: Begins presentation of Lottery Administration Legislation Summary (EXHIBIT H). Presents Staff Measure Summary on HB 2063 (EXHIBIT I). In Legislative Counsel's opinion, the statute relocations are not a problem.

250 DAVEY: We don't feel like we have the authority to implement these statutes, therefore they should be relocated to the statutes that deal with these issues.

257 REP. CARTER: We must do a better job advertising what is being done with lottery funds.

265 REP. KATZ: If we change the location of the statute governing signage, then EDD can enforce this better?

277 DAVEY: That is our opinion.

280 REP. MC TEAGUE: We put out a lot of lottery tickets and Mega-Bucks tickets that have a reference made to the funds being used to create jobs for Oregonians, but nothing specific. Has the Lottery Commission ever done anything more this - any thought to putting a lottery fact on each ticket?

305 DAVEY: We have not put specific project information on a ticket. We try to promote the benefits of the funds. You have to be careful in

promotion of projects - an array of them rather than choosing just one. We do promote tourism through a game called Oregon Treasures that features 12 different locations throughout the state. Our future strategy is to place a lot of emphasis on the benefits of the lottery.

340 REP. MCTEAGUE: Most constituents have no sense about the productivity of the use of lottery funds.

355 DAVEY: We are going to try to assure that people who benefit from the lottery funds know what the funds are being used for. We have a promotional video we have used at local functions, but we are also frustrated at the difficulty in informing the public what lottery funds have been used for.

369 CHAIR BAUM: Is it possible to include a lottery fact on tickets without causing printing problems?

374 DAVEY: I think it is possible. We just want to be careful not to alienate some players who may not appreciate some projects.

398 REP. PICKARD: I would like information from staff regarding handicapped access to the Oregon Convention Center.

404 CORTRIGHT: Statutory language added by the Legislature last session requires that lottery-funded projects be reasonably accessible to the handicapped. There was an issue in the design and construction of the Oregon Convention Center revolving around the slope between the parking lot and main entrance and the number of handicapped restrooms. There are also federal and other requirements that apply to public buildings.

430 REP. MC TEAGUE: I will work on an amendment to a lottery administration bill that would direct the Lottery Commission to include lottery facts on tickets.

TAPE 26, SIDE B

HB 2063 (Lottery Statute Changes) - Work Session

025 MOTION: REP CARTER moves HB 2063 to the floor with a Do Pass recommendation.

030 VOTE: Above motion passes 7-0. Voting AYE: REPS. BAUM, BARNES, CARTER, HAYDEN, KATZ, MC TEAGUE, AND PICKARD. Carrier: REP. BARNES.

HB 2064 (Lottery Prize Tabulation) - Public Hearing

038 CORTRIGHT: Presents Staff Measure Summary on HB 2064 (EXHIBIT J).

048 DAVEY: We are capable of making the tabulation on prizes that are paid directly by the lottery. (There are some prizes under \$25.00 that are paid by retailers that we can only estimate the unclaimed/unpaid.) We account for prizes on a monthly basis, but we do not show a tabulation by month, nor has it ever been asked for and we don't see what benefit it could serve. If an auditor wanted this out of the computer we could produce it. Our concern is just that it is a requirement that we have never done.

060 REP. KATZ: If it is in your computer, what is the problem printing it?

063 DAVEY: There is no problem printing it. This statute says we should do that, which would pile up paper that we have never had the request for. We don't need it.

068 REP. KATZ: "If a customer wanted that information, would you tell them - if we passed this bill - that you don't have it or can't give it to them? No? OK."

069 DAVEY: "No."

070 CHAIR BAUM: The point is that it is automatic now and has to be done and you are not saying you won't give it to a requestor?

072 DAVEY: It is still available. We do answer questions about prizes, we have just never had the need to print this out.

075 REP. BARNES: This seems like micro-management.

078 CHAIR BAUM: I believe this is a result of the initiative process that was responsible for the lottery.

081 REP. HAYDEN: The process should be as open as possible. Perhaps the legislation should indicate that these records are available upon request.

088 REP. HAYDEN: On page 2 of the printed bill, line 4, please explain the phrase, "Payment of any prize may be paid to the estate of a deceased prize holder." Please explain this. You could pay or you would pay it? You may pay it or you shall pay it?

093 DAVEY: A first concern of a Megabucks prize winner (where the prize is paid over a 20-year period) is what happens to the money if they die before it is paid in full. All of our prizes are payable to a beneficiary. The terminology is assuming that there is an heir. As long as there was somebody available to pay it to we would do that. There has never been a case of an estate available that we did not pay to.

110 CHAIR BAUM: The language probably should be "shall" but they seem to be doing it that way anyway.

HB 2064 (Lottery Prize Tabulation) - Work Session

115 MOTION: REP. BARNES moves HB 2064 to the House floor with a Do Pass recommendation.

VOTE: Above motion passed: 6-1. Voting AYE: REPS. BAUM, BARNES, CARTER, KATZ, MC TEAGUE, AND PICKARD. Voting NAY: REP. HAYDEN. Carrier: REP. MC TEAGUE.

HB 2065 (Lottery Report Distribution) - Public Hearing

128 CORTRIGHT: Presents Staff Measure Summary on HB 2065 (EXHIBIT K)

150 CHAIR BAUM: I would be interested in how much money would be saved if this bill were implemented.

151 DAVEY: This would not save a significant amount of money. We do send these to people who never use them and have had Legislators ask us

why the reports are sent. We don't plan to not produce the reports. We will produce monthly and quarterly reports that will go to the Lottery Commission and any public official that wants to see them.

161 REP. KATZ: Wouldn't it be easier for you to send a postcard to the members asking if they want to be on your list?

164 DAVEY: I agree. But we read the law as stating that we have to do it. We introduced a lot of these bills after being in operation for a while and after review of our statutes. These are changes we recommend. We thought we would be in violation of the statute if we did not do it.

175 REP. KATZ: The burden would be different.

178 REP. CARTER: Any Legislator that wants this information can have it. It is bureaucratic to send the paper out if it is not needed. I would rather they channel the money into other uses.

187 CHAIR BAUM: Are we talking about the quarterly report that delineates where the money went?

188 DAVEY: No. This is the quarterly financial report.

192 CHAIR BAUM: This is pure paperwork that probably ends up in your local landfill. We could even go further and ask about other reports.

211 REP. HAYDEN: I agree with REP. KATZ. If we can't do it administratively, then do it legislatively. "Any recipient of this material who chooses not to receive it may remove their name from the mailing list." I do examine the material and would be on the mailing list. This could be a situation of advocacy of less public disclosure.

HB 2065 (Lottery Report Distribution) - Work Session

245 REP. PICKARD: The nature of the lottery led to many safeguards. I see this as evolving from the extraneous to improve efficiency. I don't see anything attempted to be hidden. I like the effort for streamlining, saving time and money, and remaining accessible to those persons wanting the information. This is not a threat.

261 CHAIR BAUM: Do we want to include a provision that would require the Lottery Commission to mail out postcards to members asking if they want to receive these reports? What does the Committee think? There could be language in the printed bill Page 2, Line 2 to effect that "The Commission shall contact interested parties and make quarterly reports available upon request."

291 REP. BARNES: They could administratively determine when to make the contact.

295 REP. HAYDEN: With that language I could request the Lottery to send quarterly reports to everybody. That is my request.

300 REP. KATZ: I can understand both sides. A new Member may never know these reports are available. He never requested them. I would like a system where, as a new Legislator, you get contacted about the existence of the reports and have the opportunity to request them.

319 CHAIR BAUM: The language would say "The Commission shall contact interested parties and make quarterly reports available upon request."

322 REP. MC TEAGUE: The Committee Rules do not refer to amendments. Is there a House Rule that we have to have Legislative Counsel approved amendments before voting.

327 CHAIR BAUM: No.

340 CORTRIGHT: There is a three-day rule for turning an final bill folder in to the House Desk. We would suggest that you adopt amendments in concept and adopt the Legislative Counsel version at a further meeting.

360 CORTRIGHT: There would be two changes: On Line 2, delete the word "make" and insert the word "prepare"; delete bold-faced material on Line 2. On Line 3 delete the bold-faced material and insert a period after the word "lottery". Lines 4, 5, and 6 would remain the same. Then language could follow on Line 6 about distribution.

393 CHAIR BAUM: "The Commission shall contact interested parties and make quarterly reports available upon request." We will probably also add a provision that interested parties shall be the same parties that are defined in sub-paragraph 3 on Line 22.

425 MOTION: CHAIR BAUM moves the adoption of the conceptual amendments outlined above.

VOTE: There being no objection, the conceptual amendments are adopted.

429 CORTRIGHT: For consistency, you may want to change language on Page 2, line 22 that currently requires monthly financial reports be prepared only if requested to language that provides that the Director make monthly reports to the Lottery Commission and provide copies upon request, so that you are assured the Lottery Commission is reviewing the financial condition of the Lottery. "On Line 22, after the comma following Commission, add the words "and upon request". Then delete the bold-faced material on 23-24.

453 REP CARTER moves the adoption of the conceptual amendment as stated above.

VOTE: There being no objection, the conceptual amendment (above) is adopted.

HB 2066 (Lottery Ticket Numbering) - Public Hearing

462 CORTRIGHT: Presents Staff Measure Summary on HB 2066 (EXHIBIT L).

471 DAVEY: When the initiative was written there was a lot of input from a vendor that manufactures tickets. That vendor had the technology to put numbers on every ticket; some vendors do not. We are looking for security and that can be done without a number on every ticket. This causes an additional burden and maybe even narrows the competition.

TAPE 27, SIDE A

035 REP. CARTER: What impact does this have on the security of lottery tickets?

036 DAVEY: There are a number of measures: series printing, auditors and security personnel visiting the plants, the inks used on the tickets, symbols printed on the tickets, etc. We can tell quickly if somebody is trying to forge a ticket. The number does not play a role.

046 REP. KATZ: If we passed this, would there be any numbers on the tickets?

048 DAVEY: Some would, particularly those generated by the computer.

054 REP. KATZ: I am concerned about a customer that wants a block of tickets with numbers that represent that block.

056 DAVEY: We could assure a customer of that. The numbering would not necessarily be consecutive anyway.

065 REP. MC TEAGUE: Are there any estimates on the money savings?

071 DAVEY: We would have to calculate that. One estimate is a savings of ten percent on a game that sells \$13 million. The most important thing for us is latitude on who can print our tickets, which could mean a significant savings. By being limited to two or three printers the competition is very limited.

078 CHAIR BAUM: We would like estimates on savings for all of these bills before we carry them on the House floor.

080 REP. HAYDEN: Do we have a "Buy Oregon" program in printing tickets?

082 DAVEY: We try to do as much business with Oregon businesses as we can. There are no Oregon printers with this capability. We have tried to encourage it but they tell us that for just Oregon's business, the equipment to do this is too expensive to justify. Passage of this bill could make it easier for Oregon printers to do the tickets.

HB 2066 (Lottery Ticket Numbering) - Work Session

104 REP. MC TEAGUE: I would like to suggest a conceptual amendment for a ticket fact: "Every lottery ticket or stub sold in Oregon shall contain a lottery fact which refers to a specific lottery-funded project or the benefits and jobs created for a specific area of economic activity." That is very broad and would give the Lottery Commission maximum latitude.

127 REP. BARNES: I think this would be an administrative nightmare. This would be a significant increase in printing costs.

135 DAVEY: It may not increase printing costs. I am concerned about "specific" - about us determining what projects would be included. I would like the latitude to work with EDD or the Committee on this. General themes varied on the tickets would be doable.

153 REP. BARNES: The concept is good. Specifics would be too hard to do.

163 REP. HAYDEN: I have no problem with the amendment. I can see regional rivalry.

169 REP. CARTER: The fact or project is up to the Commission. It

doesn't seem specific to me.

182 REP. MC TEAGUE: It is not my intent to increase printing costs. The problem we face is that people do not know what lottery funds are going for. My intention is for this to be general enough to mention general economic areas of activity.

208 REP. KATZ: Do you print specific tickets or specific games for specific geographic areas?

210 DAVEY: No.

214 REP. KATZ: Would it be possible to print regionally-targeted tickets?

217 DAVEY: That would be difficult and costly.

220 REP. KATZ: Identifying some projects that everybody would feel good about is doable?

222 DAVEY: We could work with REP. MC TEAGUE and if we had some direction to put information on some tickets we would do what we could. We do not want to get into difficulties promoting things that others disagree with.

239 REP. BARNES: This is too much micro-management. The concept is good but this Department has marketing experts who could work on this on their own.

244 DAVEY: Maybe we could come back and show you what we are doing and we could do more if you want it. It doesn't have to be in statute for us to do it.

254 REP. PICKARD: I don't disagree with the idea but maybe we should make this an option of the Commission. I would rather not include this in statute.

255 REP. CARTER: Neither EDD or the Lottery Commission has ever done anything without it being in statute. We have been talking about marketing EDD programs through this legislative body forever and the citizens in Oregon still don't know what their lottery funds are being used for. We have done poorly in marketing and that is why lottery funds are being used for all kinds of other uses (prisoner, education, etc.). If we are not more successful at marketing the lottery funds use for economic development it is going to continue to be siphoned away. This is an idea that could help market.

284 REP. KATZ: I don't think you can count on this in Administrative Rule. You are a Legislature that makes the policy decision. You had better put it in statute.

307 REP. KATZ: I suggest that REP. MC TEAGUE and the Lottery Director work on language for this that satisfies the concerns.

314 CHAIR BAUM: We will work on fine-tuning final language for this amendments and bring the bill back for work session at the next meeting.

HB 2068 (Lottery Vendor Disclosures) - Public Hearing

328 CORTRIGHT: Presents Staff Measure Summary on HB 2068 (EXHIBIT M).

346 DAVEY: We deal with large companies. One we were not able to work with due to the size of their company and these disclosure requirements.

A State Police Captain is in charge of our Security Division and they keep on top of any companies that could be potential problems. The mandatory disclosure requirement is costly to us and the people we do business with.

368 REP. KATZ: I would like more information on these problems you are having.

385 BILL JOHNSON: Presents example of an instant ticket vendor company that the Lottery could not do business with due to the large number of employees and shareholders (over 330 ,000). With recent financial mergers, this could happen more frequently. We do very extensive background investigations on companies.

419 REP. KATZ: Would this eliminate background checks on subsidiaries and spin-offs?

422 JOHNSON: No.

423 REP. KATZ: The issue is only on individual shareholders?

427 JOHNSON: Yes. On publicly-held corporations those shareholders, in addition to the officers and directors, that own 15 percent or more would have to disclose; on privately-held corporations, all stockholders/shareholders would have to disclose. All requirements remain the same on trusts and associations.

455 REP. KATZ: What is wrong with a random check on stockholders?

462 JOHNSON: We would do that.

474 REP. KATZ: Are you comfortable with this bill?

475 JOHNSON: Yes.

477 REP. PICKARD: Give me an example of a "major procurement" (from line 7 of the printed bill). What is major?

TAPE 28, SIDE A

028 JOHNSON: Major procurement is defined on Page 3 of the printed version of the bill.

034 REP. CARTER: On page 2, subsection h, lines 3 through 5, should that paragraph give us some security in knowing there are additional security measures?

042 JOHNSON: That and other disclosure information would be left to the discretion of the Security.

046 CHAIR BAUM: I would like background on your internal motivation for this bill request. We do not want to be in the position of passing this legislation that could lead to a dubious company being involved with the lottery. What kind of assurances do you have that this would not happen.

056 JOHNSON: The State Policy have a contractual commitment with the

Oregon Lottery and there is a high level of commitment to the Lottery and the people of the State of Oregon to ensure the integrity, honesty, security, and fairness of the operation and administration of the lottery. This is an exception, not the rule. I can't think of anybody we are doing business with now that we would change what we are currently doing. We recently updated our disclosure forms to provide additional information.

071 REP. KATZ: Would you have denied the vendor the opportunity to bid if the list of shareholders had been known.

075 JOHNSON: If they would have supplied the information (which I doubt they would have), I would have recommended to the Director that a thorough background investigation could not be done as required by law.

081 CHAIR BAUM: What was the problem with the corporation? The confidentiality of the stockholders or the burdensome nature of providing it?

083 JOHNSON: I think it was both - they did not tell us exactly.

089 REP. KATZ: What would you do if this happens?

095 JOHNSON: We would continue our background investigation on the company and determine its relationship to others. If there were several hundred or thousand shareholders, I don't think we could complete an investigation on them.

099 CHAIR BAUM: You would look at the officers and major shareholders of any corporation. What if there are several hundred shareholders, would you still say you would not check the major ones or how would that be handled?

103 JOHNSON: It would depend on the number and the other information that we receive from criminal background checks and other companies they may be associated with. I can't give you a particular number on where discretion would be used.

105 DAVEY: That there is some discretion is what is being asked for. With discretion they could determine who they wanted to look at and ask for the amount of information they think is necessary as opposed to getting everything on everyone.

117 REP. HAYDEN: If I were of dubious reputation and was running a corporation, the corporation officers could still above reproach. Only investigating the officers would not do that much good, you need to investigate those persons actually running the corporation. It is a good idea to do random checks on a percentage of shareholders. The corporations should know that any one member could be subject to background investigation.

133 REP. BARNES: Is the Lottery Commission required by law to engage the State Police for security services?

135 Yes. They also may contract for other necessary security services.

HB 2067 (Lottery Winning Odds) - Public Hearing

157 CORTRIGHT: Presents Staff Measure Summary on HB 2067 (EXHIBIT N).

185 DAVEY: We have trouble complying with this requirement in a Lotto game where we do not know how many of them we are going to sell.

195 REP. KATZ: You have no objection to the odds being included in radio advertising.

208 DAVEY: No. It was probably not included because a marketing person thought it would take up the time that could be used for advertisement of the game, but we will do that if we have to.

HB 2067 (Lottery Winning Odds) - Work Session

222 REP. HAYDEN: Submits a hand-engrossed version of HB 2067 (EXHIBIT M) that includes proposed amendments.

224 REP. CARTER: What do you mean by "in a neutral manner".

227 REP. HAYDEN: The language in this amendment needs finessing. The point is that when I listen to these ads they tend to advance the premise you are almost a sure winner. Their manner of stating the odds is not done neutrally, but is deceptive and misleading by the inflection and manner of delivery.

245 REP. KATZ: I also have heard this ad and found it very offensive. I don't know if this can be legislated.

250 CHAIR BAUM: There are issues of marketing and free speech. Who are these ads done by?

255 DAVEY: Some of the ads are done by our internal marketing section of the Lottery. Some are done by advertising agencies. We have had contracts with different agencies. Our in-house ad agencies are also often done in conjunction with private agencies.

266 CHAIR BAUM: We have a State agency advertising a State product. I am unclear whether that means we can address this. I know we could not if it was private, but we need to know if we can since it is public.

281 REP. KATZ: This is State activity. Does the State have an interest as they do in other things like liquor licenses, tax exemptions, etc? I think that there is a State role.

306 MOTION: REP. HAYDEN moves to amend the printed version of HB 2067 by inserting ", radio" after "television" on Line 16.

316 VOTE: There being no objection, the above amendment is adopted.

320 MOTION: REP. CARTER moves to amend the printed version of HB 2067 as follows: On Line 20, replace "the average odds of winning a prize" with "a close approximation of the odds of winning some prize".

331 VOTE: There being no objection, the above amendment is adopted.

333 REP. HAYDEN: We do not allow "marketing" of liquor or tobacco products. The Lottery is a debilitating product. This is not a product that should be aggressively marketed as beneficial for the people. I

object to the advertising techniques.

365 CHAIR BAUM: The issue is should we allow normal types of advertising techniques to sell these games.

370 REP. CARTER: I can understand that the Lottery needs to market to be successful, but I have problems with seductive advertising. This is hard to measure objectively. But misleading, "puffed-up" advertising needs to be avoided.

395 CHAIR BAUM: Could we use a disclaimer at the end of an advertisement?

400 REP. HAYDEN: I like it.

420 REP. BARNES: This is a fine line. I would like more specifics as to what is meant by "in a neutral manner".

435 REP. MC TEAGUE: I don't know how to improve on "in a neutral manner" language.

TAPE 27, SIDE B

030 REP. KATZ: A disclaimer is a statement of fact.

031 CHAIR BAUM: I would like to hold off on this language until the next meeting.

034 DAVEY: That would give us time to think about it also. I would also like to present information to you on who plays the lottery. There are misconceptions that only the low income play. We do not have a problem with what you are trying to accomplish. We may get caught up in the hype. With our advertising, we are trying to attract the professional persons.

047 CHAIR BAUM: Please provide us with the demographic research on who plays the lottery (in writing).

050 REP. HAYDEN: Does the Constitution require marketing of the Lottery with the intention of attracting more players?

054 DAVEY: Our interpretation is that we market the Lottery in a manner consistent with state agencies.

059 REP. HAYDEN: The Constitution requires that you administer a lottery, not promote or advertise.

064 REP. KATZ: Are liquor stores allowed to advertise?

067 DAVEY: Not liquor.

070 REP. KATZ: I try to parallel operations within State government if I can. We treat liquor different than we treat gambling, yet both are (in excess) dysfunctional behaviors. REP. HAYDEN'S point does have merit.

073 DAVEY: The language reads "the lottery . . . to operate so as to produce the maximum amount of net revenues to benefit the public purpose".

079 REP. HAYDEN: Do you interpret that to mean to operate the most efficiently and keep operating expenses low or to attract the largest number of players?

082 DAVEY: I think it means both. We have rejected a lot of flashy advertising.

093 REP. HAYDEN: One of the ads encourages people not to spend a dollar to buy four stamps for postage to pay bills, but to buy a lottery ticket instead. How do you defend that?

099 DAVEY: After reviewing that ad, I don't care for that line either. It was not intended to be interpreted that way; it was making a reference to what a dollar could buy, not what you should buy.

107 CHAIR BAUM: ORS 461 also references that the lottery should operate ". . . commensurate with the public good. . . .".

113 CORTRIGHT: I would request that the information on demographics on who plays the lottery show the percentage of income spent on the lottery as opposed to whether or not they play.

117 DAVEY: We may not have that information.

121 REP. KATZ: The information may not be relevant without that information. If you want it, you could do polling and get it.

126 REP. CARTER (referring to article published in The Oregonian on Sports Action shortfalls): When you discuss Sports Action in the news media, it needs to be done in perspective. Hard and soft dollars in the lottery. The Legislature is taking the blame for things that they are not at fault for.

138 DAVEY: I have not seen that article. I have defended the process that the 1989 Legislature went through regarding Sports Action. The media does not always print what you say.

145 REP. KATZ: We need to make sure the media understands and prints the priorities.

154 REP. CARTER: We should take this to editorial boards.

158 CHAIR BAUM: Adjourns the meeting at 11:10 a.m.

Submitted by,

Jeri Chase Office Manager

EXHIBIT SUMMARY

EXHIBIT A -Rules, submitted by Rep. Baum, 2 pages

EXHIBIT B -LC 2478, submitted by Rep. Baum, 9 pages

EXHIBIT C -Written testimony, presented by Karen Runkel, 6 pages

EXHIBIT D - Film and Video Office Presentation, presented by Karen Runkel, 6 pages

EXHIBIT E - Business Finance Section Presentation, presented by Mark Huston, 5 pages

EXHIBIT F - Key Industry Program Presentation, presented by Janet Jones, 5 pages

EXHIBIT G - Folder of Information about Key Industry Program, submitted by Janet Jones, 27 pages

EXHIBIT H - Lottery Administration Legislation listing, submitted by Joe Cortright, 1 page

EXHIBIT I - Staff Measure Summary on HB 2063, presented by Joe Cortright, 1 page

EXHIBIT J - Staff Measure Summary on HB 2064, presented by Joe Cortright, 1 page

EXHIBIT K - Staff Measure Summary on HB 2065, presented by Joe Cortright, 1 page

EXHIBIT L - Staff Measure Summary on HB 2066, presented by Joe Cortright, 1 page

EXHIBIT M - Staff Measure Summary on HB 2068, presented by Joe Cortright, 1 page

EXHIBIT N - Staff Measure Summary on HB 2067, presented by Joe Cortright, 1 page

EXHIBIT O -Hand-Engrossed Version of Amendments of HB 2067, submitted Rep. Hayden, 1 page