

HB 2251 - PH & WKS HB 5505 - PH & WKS

HOUSE LEGISLATIVE COMMITTEE ON TRADE AND ECONOMIC DEVELOPMENT

February 11, 1991Hearing Room 343 8:00 A.M.State Capitol Salem, OR

Tapes 45-48 COUNTY FAIRS ORTDC EXPENDITURE LIMITATION

MEMBERS PRESENT: REP. RAY BAUM 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 HOLLY BROWN, COMMITTEE ASSISTANT

WITNESSES: YVONNE ADDINGTON, COMMUNITY DEVELOPMENT MANAGER, ECONOMIC DEVELOPMENT DEPARTMENT JOHN MC CULLEY, OREGON FAIRS ASSOCIATION JOHN BEAULIEU, PRESIDENT, OREGON RESOURCE AND TECHNOLOGY DEVELOPMENT CORPORATION MONFORD ORLOFF, CHAIRMAN, FEI COMPANY BRUCE BECKER, M.D., CHAIRMAN, FIBERLITE COMPOSITES, INC. SCOTT RANEY, V.P. ENGINEERING, FIBERLITE COMPOSITES, INC. EDWARD PRICHARD, JR. Ph.D., OHSU WAYNE EMBREE, DEPUTY DIRECTOR, OREGON RESOURCE AND TECHNOLOGY DEVELOPMENT CORPORATION

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 45, SIDE A

000 CHAIR BAUM convenes the meeting at 8:06 a.m.

006 JOE CORTRIGHT: Presents Staff Measure Summary on HB 2251 (EXHIBIT A).

HB 2251 (COUNTY FAIRS) - PUBLIC HEARING

025 YVONNE ADDINGTON: Begins presentation of testimony regarding HB 2251 (EXHIBIT B).

066 ADDINGTON: Concludes presentation of EXHIBIT B.

101 REP. CARTER: Does the money come from economic development through lottery dollars or is there a plan that this be general funding?

104 ADDINGTON: I am not aware of any plan to make it generally funded.

It was included in the Governors lottery budget.

116 JOHN McCULLEY: A lot of important income occurs on fairgrounds throughout the state. The fairground is where most of the local activity occurs. Presents testimony in support of HB 2251 (EXHIBIT C).

150 McCULLEY: Presents "Polk County Fairs, Lottery Funds for County Fairs" (EXHIBIT D).

187 McCULLEY: Presents "Oregon County Fairs Economic Assessment" (EXHIBIT E). We find that this is a very conservative estimate of the economic impact that fairs have on the state.

193 CHAIR BAUM: Is this the first time that the Governor's budget and the executive powers have asked that this be made permanent?

195 ADDINGTON: Usually there has been a biannual appropriation, it came back from the legislature in this form.

196 McCULLEY: It was proposed to be permanent in 1989.

226 REP. HAYDEN: I think it should take its place among those that are permanently funded.

284 REP. MC TEAGUE: At all these county fairs that are funded by the lottery are signs put up acknowledging that this event is lottery funded?

300 ADDINGTON: Yes, the law provides that a large sign be put in front.

308 TAMI MILLER: Why were counties with populations over 400,000 excluded from participating in county fairs?

313 ADDINGTON: Some of the larger counties receive funds from other commissions, such as the racing commission gives to Multnomah county, so the larger counties were excluded in an attempt to balance the amount of funds available to each county.

327 REP. PICKARD: I think it is very important to support the fairs because of their major impact on the rural areas. It is money well spent.

341 REP. KATZ: From where else in the budget do you receive money?

345 McCULLEY: The county fairs participate in the racing revenues, receiving 1.5 million dollars per year.

362 REP. KATZ: Then why did you come back for more money?

369 McCULLEY: The existing funding base was not adequate to improve the fairgrounds.

408 CHAIR BAUM: What percentage of the funds was used for paying administrative overhead?

414 ADDINGTON: During the last biennium 4 percent of the allocation was moved to the administration, in the past it had been added to the community development block grant and the special public works program.

421 CHAIR BAUM: Is that necessary?

423 ADDINGTON: Yes.

439 MILLER: HB 3075 last session included a provision that allowed the department to take 4 percent out of each of its lottery funded programs and to pool that money to help pay for administrative costs.

TAPE 46, SIDE A

HB 2251 (COUNTY FAIRS) - WORK SESSION

013 REP. MC TEAGUE: What is the process that is going to be used on allocating money to these bills? Are we going to be making two recommendations on the same subject?

022 CHAIR BAUM: The proposal of the Chair is for us to get these bill in the form we want and then send them to ways and means and then depending on whether the allocation bill funded that program or not either let the bill languish in Ways and Means or be funded.

030 REP. CARTER: I think this committee should want to send a package of bills down with recommendations and then personally go down and bull dog the budget.

049 REP. HAYDEN: Maybe we should allow them a four year grace period to plan instead of sun setting every two years or making it permanent.

055 REP. KATZ: We could include this in the large lottery bills instead of making individual bills.

070 REP. BARNES: I agree with Rep. Carter. However, county fairs could use some permanency. To make our country fair successful they need extra funds.

090 REP. KATZ: Are there any fairs without extra funding?

092 REP. BARNES: Yes.

095 McCULLEY: Fewer than half the counties provide dollars to their fair.

099 REP. KATZ: This is an interesting policy question. If this program is so important why don't the counties cooperate with the state?

107 McCULLEY: In every county they have to generate their own revenues and many counties are involved in sharing equipment but very little cash assistance.

115 REP. KATZ: Are there any counties where the revenues from the county fair go back to the county general fund?

120 McCULLEY: Yes, Multnomah county and Benton county.

122 REP. KATZ: I am concerned that there is skimming off from the top to pay for county general activity.

130 REP. BARNES: We may want to change the organization of the county fair board.

155 CHAIR BAUM: We are going to hold this issue over because there is no allocation language in the bill.

180 CHAIR BAUM: I would like to bring this bill back in `93.

190 REP. CARTER: I am not going to vote for permanency on anything we fund. I think the lottery funds should be reviewed every 2 years.

211 REP. KATZ: This bill may not even be needed.

224 MILLER: There needs to be a substantive bill created somewhere. All this bill does is establish the program.

233 REP. KATZ: But there may be other programs coming in that already have funding trying to establish new programs which would eat away funds that could be used in programs that are completely with out funding

240 MILLER: Would you then put the program language in the laws?

242 REP. KATZ: Why do you need the language?

244 MILLER: In order to establish what sort of criteria the money should be given out under and to authorize the department to spend the money that way.

244 REP. KATZ: I think this could be covered in the omnibus bill.

250 CHAIR BAUM: I want a sense from you on how you want to go about funding these bills.

261 REP. PICKARD: I concur with Rep. Carter.

267 MOTION: REP. CARTER moves that HB 2251 be amended to include a sunset for June 30, 1993.

268 VOTE: There being no objections, the CHAIR so orders the amendment.

375 CHAIR BAUM: Recesses at 9:00 am.

380 CHAIR BAUM: Reconvenes meeting at 9:16 HB 5505 (ORTDC EXPENDITURE LIMITATION) - PUBLIC HEARING

390 MILLER: Summarizes HB 5005.

428 JOHN BEAULIEU: The purpose of ORTDC is to build businesses in Oregon that create wealth and this wealth creation is what really builds jobs. He submits EXHIBITS F - K.

TAPE 45, SIDE B

072 BEAULIEU: Presents ORTDC Investments: 1987 - February 1991 (EXHIBIT L).

127 BEAULIEU: Concludes presentation of EXHIBIT L.

140 MONForD ORLOFF: I think this type of high tech company is going to play an important role in raising funds in our state. I became involved with ORTDC because I felt a small amount of non equity capital would be helpful to the business I had invested in (FEI). ORTDC has helped

increase the equity of FEI and can provide help and experience that has been and will be helpful to smaller businesses. House T&E Committee
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290 CHAIR BAUM: How much would ORTDC have to invest in 1991-93 without any allocations from lottery?

295 BEAULIEU: We would have approximately \$750,000 but that is really committed to our existing portfolio accounts. We need about 5 million dollars to support the portfolio companies.

310 CHAIR BAUM: As businesses receive these monies is it in the form of equities?

312 BEAULIEU: No we can't hold equity. We hold a note with detachable warrants.

333 ORLOFF: The warrant gives you the opportunity to purchase shares but you have no investment in the equity as such.

360 CHAIR BAUM: Will you please explain warrants to us please?

374 BEAULIEU: With the note and the interest each warrant is worth 20,000 dollars. We will let the companies buy back the warrants at this price. This balances the interests of the company and our interest which is to get a return.

428 CHAIR BAUM: How is the note secured?

429 BEAULIEU: It isn't always. We take the maximum amount of the risk.

446 CHAIR BAUM: What is your track record over all?

TAPE 46, SIDE B

022 BEAULIEU: We have had some failures. Over the last 4 years we have had an internal rate of return of almost 1 percent.

042 CHAIR BAUM: This is for the more venture type capital.

045 BEAULIEU: We are the only players doing any development investing in the state.

055 REP. BARNES: Do you service your own loans or do you go through a financial institute?

060 BEAULIEU: We service our own loans.

072 MILLER: What is a reasonable estimate of what you really need?

078 BEAULIEU: 2 to 3.5 million dollars a year. Right now we have 1.987 million.

100 REP. CARTER: The people who are relocated seem like a loss to me, is that to our advantage to lose these people early.

104 BEAULIEU: We don't have any control over people who want to leave.

122 REP. CARTER: If the state is going to invest in start up businesses of this nature there should be some return to the state in terms of revenue sharing once this has happened. How can we see some sort of return on these people in terms of dollars?

124 BEAULIEU: Statutes keep us from holding pure equity and this keeps us from being in control.

135 REP. KATZ: Why can't you hold equity?

137 BEAULIEU: Because the state constitution forbids the state of Oregon from holding stock.

152 CHAIR BAUM: We could have kept the cash and the people here had we had equity?

156 BEAULIEU: Yes. However, we would need a constitutional change to give us the power to hold equity.

188 REP. BARNES: What role do you play in getting investors to tie in with the company?

190 BEAULIEU: We are very active working with private placement people and stock brokerage companies. We have attempted to build a network with large institutions but we need more funds to continue this.

213 REP. BARNES: Would it help you in starting up new business if we had some type of a favorable capital tax scheme in Oregon for investors investing in Oregon projects?

215 BEAULIEU: Yes.

245 BRUCE BECKER: Due to our frustration with the existing technology within the wheelchair business and handicap products in general, Scott Raney and I developed Fiberlite Composites. The sports chair, developed in the early 70's, has been the last major development in this arena. ORTDC has funded us and it has served to advance the company to the point of getting the disk wheels on the market. Submits an advertisement for Fiberlite Composites (EXHIBIT M).

385 BECKER: ORTDC has been immensely helpful to us. The advantage to us is that ORTDC is extremely well connected. They have been able to assist us with particular manufacturing problems, as well as trying to help us in moving through the next stage of capitalization.

TAPE 47, SIDE A

029 CHAIR BAUM: How much funding did you receive total from ORTDC?

033 BECKER: 100,000 dollars in R&D funding and 200,000 dollars in seed stage financing.

042 REP. KATZ: Do you assist them in finding placement for added funds that they need? And do you also use the Oregon market place to link the manufacturing component with the product?

048 BEAULIEU: Yes, but I can't think of an instance where they have come together with one of our companies.

058 MILLER: Did you try any place besides ORTDC and were

unsuccessful?

060 BECKER: Yes.

062 MILLER: Why were you not accepted?

064 BECKER: Because we simply didn't have enough to show.

068 REP. CARTER: How much would it cost for the chair he (Scott Raney) has now and how different is that from on going chairs?

072 SCOTT RANEY: The cost is about the same. We are trying to change the image in the "sports chair" and encourage its use by more people.

114 BECKER: We are getting an international market that we had not foreseen.

120 CHAIR BAUM: Where would you be if there was no lottery allocated this session to continuing the funding for continuing this project?

126 BEAULIEU: Today we don't have the money for Fiberlite.

135 CHAIR BAUM: Are your commitments contractual?

139 BEAULIEU: Yes.

154 BEAULIEU: We can't do any new projects in the next biennium even with the one million dollar request.

143 REP. HAYDEN: Does the fact that you have invested your money give them any more credibility to go to other private investors than if they went to the investor themselves?

150 BEAULIEU: Yes, everyone likes shared risk.

169 REP. HAYDEN: Isn't this the essence of the economic development that lottery funds were developed for?

176 CHAIR BAUM: Yes.

230 EDWARD PRICHARD: I have been associated with about five high tech start ups. I am an associate director for a new project called the BICC. Begins presentation of "The BICC and ORTDC and the future of Healthcare in Oregon and Beyond" (EXHIBIT N). The BICC is intended to provide a rather revolutionary set of solutions to a number of problems in health care. There are only two big ticket industries in which the US has not surrendered competitive advantage to the Japanese. One of these is computer software and the other is health care technology.

326 PRICHARD: The reason for this interest in what the BICC is doing is because this is a very large industry and companies like AT&T and Kodak are trying to gain competitive advantage and entry into this market place.

366 REP. KATZ: What exactly is a BICC?

367 PRICHARD: Our job is to deliver a higher degree of information and decision making tools to health care professionals that will allow them to improve the quality of health care that they deliver and better

control the cost. Our system allows physicians access to health literature, the status of other physicians, and new medical technology as well as other helpful medical information.

412 PRICHARD: There are two major goals for the BICC both of which have benefits for the state of Oregon as well as commercial implications for organizations like ORTDC. The first is to provide a vehicle for this output of information. Secondly is outreach. There is in the Portland area a large amount of medical expertise which currently is only available to the rural areas of Oregon at best through the telephone and maybe a FAX machine. We want to be able to link up every health care professional in Oregon on a network.

460 REP. HAYDEN: Are you trying to set up a corporation to sell the hardware and software to medical offices? What motivation will people have to record their daily activities on the system?

472 PRICHARD: Yes we are trying to set up a corporation to sell the hardware and software. The major sells of these workstations will be to medical centers and large clinical practices. The motivation for buying these work stations will be purely economic and quality control.

TAPE 48, SIDE A

022 PRICHARD: These clinics will use these systems to bond their physicians to a particular hospital, in order to gain competitive advantage in the market place. The doctors incentive to participate is that their participation is required if they want to use the system. In the future every physician will have to work with a major medical center in order to have the information processing capabilities that the practice of medicine will require.

065 REP. HAYDEN: How would you characterize John Kitzhabers response to this?

066 PRICHARD: This mechanism is absolutely necessary to do what Sen. Kitzhaber wants to do.

067 REP. HAYDEN: What about Blue Cross Blue Shield?

068 PRICHARD: They will probably be one of the largest users of this technology.

072 REP. CARTER: What about right to privacy?

073 PRICHARD: The outcomes data bases are striped of the individual.

080 REP. HAYDEN: In your model A is an indemnity program, your B is a capitation model, and what is C?

083 PRICHARD: C is a new paradox of the practice of medicine, this is the health care decision being made with the supportive data at the point of the health care transaction.

102 CHAIR BAUM: You have about 26 million dollars in private funding, what kind of role do we play when you have access to all this other money?

104 PRICHARD: AT&T and Kodak donations went to the OHSU infrastructure,

to build a computer network within OHSU itself.

127 CHAIR BAUM: If this is something that is the wave of the future why can't private industry come up with the few thousand dollars that you still need?

133 PRICHARD: Large companies don't know what they are doing in anything new which is why you have venture capital funds.

136 CHAIR BAUM: Can't you go to non state funded venture capitalists outside of the big companies?

140 PRICHARD: Yes, by commercializing our research into a sellable product which would then generate a revenue stream back to the state of Oregon.

154 CHAIR BAUM: The money from ORTDC is going to prepare you to make a presentation to venture capitalists to help you fund whatever is necessary to get this program off and running?

155 WAYNE EMBREE: Most of the money from corporate industry is for research and development. ORTDC funds are used for a very specific product, the physicians work station.

180 CHAIR BAUM: Why aren't these companies throwing money at BICC?

193 EMBREE: The risk is very high at this point.

219 CHAIR BAUM: Where else have you gone for funding?

222 PRICHARD: We haven't applied for any funding yet aside from the R&D seed grant from ORTDC. We have only applied with ORTDC because there is not that much expertise in this area to really apply for funding from many places.

249 REP. PICKARD: How did BICC and ORTDC join together?

250 BECKER: ORTDC was looking for good investments and BICC was looking for funding.

258 REP. HAYDEN: I would think this system would implement the rural physicians?

269 PRICHARD: It would, by affiliating them with a larger system.

275 REP. HAYDEN: Would the network provide a diagnosis?

314 PRICHARD: Yes, eventually. We would rather get into the diagnostic aides rather than the judgement side. We are working on systems that would help you to assess the risks associated with various treatments, the quality of life associated with the outcomes associated with various treatments, even the years of useful life remaining to the patient before and after treatment.

343 CHAIR BAUM: John Beaulieu, we want a list of your commitments.

366 BEAULIEU: In Oregon ORTDC is the only group that will commit funds at this level of risk. The focus is to do what others are not willing to do because of the risk. It is not an answer to do only what others won't do either because these are investments for us and we do need to

make a rate of return.

452 CHAIR BAUM adjourns the meeting at 11:12 am. House T&E Committee
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Submitted by,

Jeri Chase Office Manager

EXHIBIT SUMMARY

EXHIBIT A - Staff Measure Summary House Bill 2251, submitted by Joseph Cortright, pgs. 2.

EXHIBIT B - "House Bill 2251, County Fairs and Special Events Grant Program," submitted by Yvonne Addington, pgs. 30.

EXHIBIT C - Statement in Support of HB 2251, submitted by John McCulley, pgs. 2.

EXHIBIT D - "Polk County Fair, Lottery Funds for County Fairs," submitted by John McCulley, pgs. 1.

EXHIBIT E - "Oregon County Fairs Economic Assessment, Final Report," submitted by John McCulley, pgs. 55.

EXHIBIT F - "EPComment," submitted by John Beaulieu, pgs. 6.

EXHIBIT G - NCN News letter, submitted by John Beaulieu, pgs. 2.

EXHIBIT H - "Odds and Ends," The Wall Street Journal, submitted by John Beaulieu, pgs. 1.

EXHIBIT I - "Example of the Data Tracked at the Board Level for a Fictitious Venture," submitted by John Beaulieu, pgs. 1.

EXHIBIT J - "Audit Report: Oregon Resource and Technology Development Corporation," submitted by John Beaulieu, pgs. 21.

EXHIBIT K - ORTDC Portfolio, submitted by John Beaulieu, pgs 52.

EXHIBIT L - "ORTDC Investments: 1987 - February 1991," submitted by John Beaulieu, pgs. 6.

EXHIBIT M - Advertisement for Fiberlite Composites, submitted by Bruce Becker, pgs. 1.

EXHIBIT N - "The BICC and ORTDC and The Future of Healthcare in Oregon and Beyond," submitted by Edward Prichard, Jr. Ph.D., pgs. 21.