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STATE LAND BOARD MEETING
JANUARY 23, 1990
STATE CAPITOL BUILDING
HEARING ROOM C
SALEM, OREGON
10:00 A.M.

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1 You're here fronting for the guy on my left? I love the
2 fact that he's on my left.

3 (LAUGHTER)

4 SECRETARY OF STATE BARBARA ROBERTS: Yeah, that's
5 something.

6 STATE TREASURER ANTHONY MEEKER: The beard didn't
7 fool him.

8 (LAUGHTER)

9 NOAM STAMPFER: Members of the Land Board, my
10 name is Noam Stampfer. I'm here to help you with the
11 first agenda item. The agenda item addresses the Board's
12 authority to invest in stocks. There are two aspects to
13 our role as managers of assets: one is investment in
14 securities which we will address today, the other is our
15 role in management assets which we'll defer to a later
16 Land Board meeting. With us here today is Bill Unverzagt,
17 who I'd like to ask to join us at the table, who is
18 managing our bond portfolio.

19 GOVERNOR NEIL GOLDSCHMIDT: He didn't raise his
20 hand or even nod. He had to forcibly come forward.

21 NOAM STAMPFER: Also with us is Jay Fewel, who
22 is an equities investment manager with the Treasurer's
23 Office, and he'll be available to answer any technical
24 questions you might have about investments in stocks.
25 After the passage of the approval by the voters of the

1 constitutional amendment, a set of questions were posed to
2 the Attorney General for an Opinion which was issued in
3 October of this year. And one of the things that was
4 addressed in the Opinion was the various roles that are
5 played in investments. And basically what it breaks down
6 to in chronological sequence is money comes in from the
7 assets that we manage, the Land Board determines what
8 acquisitions in real property it wishes to make, the
9 Division determines the level of funds needed for
10 maintaining the student loan program, and then the monies
11 remaining after those deductions are turned over to the OIC
12 to direct the Treasurer's Office to invest the monies.
13 They have all been invested in bonds up until this point
14 and Bill Unverzagt has been the person supervising those
15 investments. Now that we have the authority to invest in
16 stocks, we had a number of discussions led by Jim George
17 of the Treasurer's Office to determine the answers to three
18 questions: one is how much should be invested in stocks;
19 the second question is what kind of investment vehicle
20 should be used; and, the third is how often should the
21 strategy be reviewed by the State Land Board. Before I
22 go into those proposals, I'd like to ask Bill Unverzagt to
23 give you a snapshot of where we are right now in the
24 Common School Fund.

25 GOVERNOR NEIL GOLDSCHMIDT: I want to stop with

1 the Oregon Investment Council. Has it already reviewed all
2 of this material, so it will go from here to them? Okay.
3 And when it gets to them, they already know this is coming
4 from previous activities, and they expect to assume whatever
5 role we ask of them assuming its prudent, they believe, as
6 an investment matter, which I have no doubt, but to
7 essentially manage this responsibility like they now manage
8 their relationship with the investments that they do for
9 the retirement program? So this role for them -- I'm
10 really talking about their role really doesn't -- we're not
11 asking them to do anything they haven't done before?

12 STATE TREASURER ANTHONY MEEKER: That's correct.
13 Governor, prior to the adoption of the constitutional
14 amendment, the Land Board and the Constitution together
15 handed their basic direction to the OIC. The OIC using
16 the dual instructions from the Land Board and the
17 Constitution then constructed the bond portfolio which
18 Mr. Unverzagt and the Treasury has been managing for
19 several years. With the passage of the amendment and the
20 development of an Attorney General's Opinion, which took
21 about seven or eight months -- it's a very complicated
22 issue -- we have a new set of instructions. And that new
23 set of instructions will be reviewed today by the Land
24 Board, then it passes to the OIC to instruct Treasury how
25 to invest the funds with this new set of instructions.

1 GOVERNOR NEIL GOLDSCHMIDT: Will the Investment
2 Council when they see this conclude that we constructed an
3 inadequate constitutional amendment to give them the freedom
4 they wish they had to or where they desire to have to
5 invest this properly or basically have we succeeded in our
6 original goal?

7 STATE TREASURER ANTHONY MEEKER: It's my personal
8 opinion that the constitutional amendment was correct and
9 that the goals that you wish to achieve with that
10 amendment will be achieved over time.

11 GOVERNOR NEIL GOLDSCHMIDT: That's terrific.
12 Excuse me.

13 BILL UNVERZAGT: The current portfolio is -- we
14 have \$161 million invested in fixed income securities
15 generating above 10 percent yield, 10.18 percent. We also
16 have \$38 million cash in the short-term fund and that's
17 earning about eight percent interest.

18 GOVERNOR NEIL GOLDSCHMIDT: And this portfolio of
19 fixed interest assets is worth more than when you bought
20 it or--

21 BILL UNVERZAGT: It is. It's worth almost \$167
22 million. We purchased it for \$161 million. So we do
23 have profits and we're generating a good current income.
24 It's a legitimate current income. Oftentimes high income
25 mutual funds will buy very large premium bonds to get the

1 current income, but then also have losses. As those
2 premium bonds mature, you have principal losses. We've
3 restricted ourselves to investing no more than one percent
4 cost over par, so we're able to preserve principal,
5 generate a good level of current income and we've done
6 quite well in the market.

7 GOVERNOR NEIL GOLDSCHMIDT: And the profits from
8 falling interest rates, is that what's done this or--

9 BILL UNVERZAGT: Right. And what we try to do,
10 we spend a lot of time on research in bonds, finding
11 undervalued situations. The portfolio is rated A-plus, but
12 we have ten percent of it in ratings less than BBB. Well
13 researched ideas that we buy cheap, get the incremental
14 yield, ^{ride} ~~write~~ the upgrade, sell it and go into other
15 issues, lower rate--

16 GOVERNOR NEIL GOLDSCHMIDT: No junk bonds?

17 BILL UNVERZAGT: We have junk bonds, ten percent.
18 They're called junk. They're mostly utilities. We like
19 to call them high yield bonds.

20 (LAUGHTER)

21 GOVERNOR NEIL GOLDSCHMIDT: You're dealing with
22 three people who understand that words have meanings.

23 (LAUGHTER)

24 Well, actually we are dealing in our other portfolio
25 through KKR with an organization which has sold as bonds

1 or paper which the market may classify as junk. I don't
2 think Safeway is going to disappear.

3 BILL UNVERZAGT: Right.

4 GOVERNOR NEIL GOLDSCHMIDT: So it was actually
5 more a question because I think that market as it is
6 beginning to sift out, there is garbage in the junk
7 market--

8 BILL UNVERZAGT: There's a lot of garbage.

9 GOVERNOR NEIL GOLDSCHMIDT: And probably real
10 values in there.

11 BILL UNVERZAGT: Right.

12 GOVERNOR NEIL GOLDSCHMIDT: I'm not going to be
13 the one who will help you find them. So yours are in
14 the utility area where--

15 BILL UNVERZAGT: Mainly. We have a few
16 industrials, but it's mainly utilities.

17 GOVERNOR NEIL GOLDSCHMIDT: So this is situations
18 like Phoenix and Tucson and places like that where the
19 companies are impaired?

20 BILL UNVERZAGT: We've avoided those. We do have
21 PS New Hampshire, a company in Chapter 11 which is going
22 to come out and be a single A rated bond that's being
23 bought out, but currently it's rated D. It has defaulted.

24 GOVERNOR NEIL GOLDSCHMIDT: You stole that?

25 BILL UNVERZAGT: We stole it. We made a lot of

1 money. And we also have Long Island which is a BB rated
2 issue on the way to BBB.

3 STATE TREASURER ANTHONY MEEKER: I think,
4 Governor, Quomo would like to give them the whole Long
5 Island.

6 GOVERNOR NEIL GOLDSCHMIDT: No WPPSS bonds, huh?

7 BILL UNVERZAGT: No WPPSS bonds.

8 SECRETARY OF STATE BARBARA ROBERTS: Massachusetts
9 is for sale cheap too, you know, the whole state.

10 GOVERNOR NEIL GOLDSCHMIDT: So at this point some
11 of what you are managing will move elsewhere, is that--

12 BILL UNVERZAGT: The proposal is that part of the
13 cash flow that we normally receive will go into common
14 stocks rather than the whole thing going into fixed income
15 securities. The other part of the constitutional
16 amendment, of course, was redirecting where the operating
17 expenses of the Division of State Lands comes from and the
18 school districts have taken a sharp reduction in
19 distribution because of that part of the change. Because
20 of that we're proposing that the actual bond fund not be
21 reduced, that we not cash out bonds and purchase stocks
22 with them, but maintaining the basic size of that bond
23 fund to maintain the existing income, distributable income,
24 to the schools. At the same time the amount of money,
25 while significant, that is available to invest in stocks

1 is not that great when compared to stock funds in general,
2 so we're recommending that virtually all of the available
3 funds be invested in stocks until the size of those two
4 portfolios reaches some sort of balance. And that's the
5 first element of the proposal we have before you.

6 GOVERNOR NEIL GOLDSCHMIDT: As everything in life,
7 if the stock market is falling like a rock Meeker's troops
8 show up with their checkbook. That has a nice feel to
9 it.

10 STATE TREASURER ANTHONY MEEKER: Governor, the
11 decision of when you go into equities should not be based
12 on what a bunch of people sitting around the table think
13 equities are going to do. Either you're going to go into
14 them or you're not and--

15 GOVERNOR NEIL GOLDSCHMIDT: I assume we're just
16 searching for value--

17 STATE TREASURER ANTHONY MEEKER: Exactly.

18 GOVERNOR NEIL GOLDSCHMIDT: It just happens that
19 you're going to be searching at a time when there are more
20 values. Well, it's a good time to start. Sure.

21 NOAM STAMPFER: And that leads to the second
22 element, and that's the kind of investment vehicle. Right
23 now we're able to search for values in the bond fund
24 because we're at a size where it makes sense. At the
25 outset of the stock fund we weren't going to be able to

1 make that kind of effort and so we're proposing the use
2 of some kind of stock index fund that will enable us to
3 have a diversified stock portfolio with a relatively small
4 size until we reach the size where it makes sense to go
5 the route of the common fund or something like that in
6 which we invest in individual issues. The third--

7 GOVERNOR NEIL GOLDSCHMIDT: Each acquisition of
8 stock will be approved by the Investment Council?

9 NOAM STAMPFER: No, the direction that we're
10 asking the Investment Council to take now would be a stock
11 index fund. Once we've grown to a size where--

12 GOVERNOR NEIL GOLDSCHMIDT: And why is that a
13 good idea?

14 NOAM STAMPFER: It gives us a diversified stock
15 portfolio at a relatively small size. So instead of
16 spending staff resources looking at--

17 GOVERNOR NEIL GOLDSCHMIDT: Give me an example of
18 a stock index fund.

19 NOAM STAMPFER: Well, an S&P 500 Fund would be
20 a fund that purchases stock in proportional rate to this
21 Standard and Poor's 500 Corporations. And so you buy a
22 share in that S&P 500 Fund and you're buying a
23 proportional share of all the S&P 500 companies. And they
24 constantly readjust that portfolio to maintain the
25 proportional balance.

1 GOVERNOR NEIL GOLDSCHMIDT: And who's collecting
2 the commissions on this?

3 NOAM STAMPFER: It would be the managers of that
4 fund. It's a relatively--

5 GOVERNOR NEIL GOLDSCHMIDT: And so you're going
6 to pick a fund on the basis of its past ten-year track
7 record or something and then basically just funnel money
8 to it as it arrives or--

9 NOAM STAMPFER: Let me defer to Mr. Fewel.

10 JAY FEWEL: What you do is the index fund, in
11 essence, if it's an S&P 500 Index Fund it will mirror the
12 performance of the S&P 500, at least closely mirror it
13 over a period of time. And the reason we're trying to
14 do it in that fashion is to get in a timely basis,
15 provide for diversification and once the amount in equities
16 reaches a critical mass then we'll look at alternative
17 forms of equity investment.

18 STATE TREASURER ANTHONY MEEKER: Governor, in
19 essence, the S&P 500 Index Fund has the lowest commission
20 rate of any compared to an actively-managed fund where
21 managers are picking stocks based on what their best bet
22 is. S&P 500, you just buy the 500 stocks in a
23 proportionate share and the commission costs to do that is
24 the lowest commission rate there is. And you get
25 diversity, you get low cost of operation, and it gets you

1 into the equity market, and you can get out very easily.

2 GOVERNOR NEIL GOLDSCHMIDT: And what is the front-
3 end commission going in?

4 JAY FEWEL: The sole commission is simply the
5 purchase of the securities of the S&P 500, and again--

6 GOVERNOR NEIL GOLDSCHMIDT: You mean just pay a
7 regular transaction commission?

8 JAY FEWEL: Right. Well, it's a lower fee
9 because it's a passive investment. You are paying even
10 less than most institutional rates, and as--

11 GOVERNOR NEIL GOLDSCHMIDT: How's that performed
12 against the best 10 or 15 equity funds, growth funds
13 around?

14 JAY FEWEL: Well, the best 10 or 15 in any given
15 year--

16 GOVERNOR NEIL GOLDSCHMIDT: Well, take Magellan
17 (phonetic) or somebody who's been at it for ten years
18 or -- I mean, you know, one year is a nonevent.

19 JAY FEWEL: In some years they do outperform, in
20 some years they don't. What you're trying to do is just
21 mirror the market. I think this year the S&P 500 for
22 1989 was in excess of 30 percent. That's not too darn
23 bad. Of course, in a down year the index fund would be
24 down.

25 NOAM STAMPFER: If you look at the broad range,

1 your financial advisors in the marketplace the S&P 500
2 outperforms 70 percent of them. The third item is review
3 of the strategy. Yes?

4 ASSISTANT TO THE GOVERNOR GAIL ACHTERMAN: If I
5 can just ask one question. I understood, though, that the
6 direction if the recommendation of the staff is adopted by
7 the Board where the recommendation is to establish a stock
8 index fund, it wouldn't necessarily be the S&P 500 Fund.
9 The Oregon Investment Council could decide on its own to
10 essentially create its own index fund picking the stocks
11 that it felt were the best overall index mix, so that
12 there'd be considerable flexibility left to the Oregon
13 Investment Council to make decisions about how to achieve
14 the Land Board's objective of getting a broadly balanced
15 index of the overall market as they enter the stock
16 market. I'm just trying to get you pinned down on --
17 you've used the S&P 500 Fund as an example, but it was
18 my understanding that the Investment Council would have
19 considerably more flexibility than that.

20 NOAM STAMPFER: That's correct. And if you look
21 at the four recommendations on page seven you'll note that
22 in number two we're proposing that you endorse the proposal
23 that we've developed that would be put forward to the OIC
24 to implement. It wouldn't be directing them to invest in
25 any given vehicle, but to establish what the wishes of the

1 Land Board would be. In contrast, number three asks that
2 you direct the Oregon Investment Council to reinvest all
3 capital gains. Here we have statutory authority to
4 determine how much of the capital gain should be
5 distributed or reinvested. It makes all the sense in the
6 world to reinvest, and so we're directing that that be
7 done as opposed to requesting or endorsing it.

8 STATE TREASURER ANTHONY MEEKER: Governor, I might
9 comment that the Oregon Investment Council and the Treasury
10 are guided by the 1987 Legislature. Any new equity or
11 bond investment must be South Africa free, and I can
12 assure you that that will occur at the direction of the
13 Investment Council and Treasury staff.

14 NOAM STAMPFER: The final recommendation is that
15 we establish a regular annual process to review the
16 investment strategy of the Common School Fund.

17 GOVERNOR NEIL GOLDSCHMIDT: Well, for myself I
18 would be interested in getting written quarterly reports
19 with any comments from the Treasurer that he thinks are
20 appropriate, but I can't imagine given the way the market
21 works and what's going on that unless there's a problem on
22 the distribution side of the Common School Fund, that is
23 if we run into a situation that ought to be brought to
24 our attention because we've got a financial problem, that
25 we need to make this a regular event annually from my

1 perspective, as long as we get some kind of quarterly
2 information and some comments about how it's going. The
3 one thing I would like to get annually, Tony, if it's
4 possible is that at the time we get the report I'd like
5 to get any comments the Investment Council wants to make
6 because they may have some good advice for us and it just
7 means putting it on their agenda, letting them talk about
8 it, having somebody take some notes and sort of summarize
9 their comments and respond.

10 STATE TREASURER ANTHONY MEEKER: Governor, the
11 annual review is something that we do by rote with all
12 trust accounts, all trust funds that the OIC manages,
13 whether it's the Common Fund, this fund, or the Pension
14 Fund. There are annual reviews particularly of the
15 liability. In other words, what is the fund there for,
16 what kind of investment strategy matches that liability.
17 And I think that by the time the Council gets through with
18 it what you will have is an annual distribution of
19 revenues from the bond portfolio that matches historic
20 revenue distributions and new cash dollars going into
21 equities for long-term gain. Ten years from now you ought
22 to have something that's worthwhile.

23 GOVERNOR NEIL GOLDSCHMIDT: Well, our goal here
24 was to see that the Common School Fund distribution over
25 time assumed a small but increasing share of the

1 responsibilities of financing Oregon schools, and I think
2 this will achieve it. It takes a long time to get there,
3 but you know--

4 STATE TREASURER ANTHONY MEEKER: We'll all be
5 constitutionally prohibited from serving when this thing is
6 in good shape.

7 SECRETARY OF STATE BARBARA ROBERTS: Yeah, we
8 finally get some good news and we're gone.

9 GOVERNOR NEIL GOLDSCHMIDT: Is there a motion to
10 approve these recommendations?

11 STATE TREASURER ANTHONY MEEKER: I would move that
12 we approve the staff recommendation.

13 GOVERNOR NEIL GOLDSCHMIDT: Is there a second?

14 SECRETARY OF STATE BARBARA ROBERTS: Second.

15 GOVERNOR NEIL GOLDSCHMIDT: Martha?

16 DIRECTOR MARTHA PAGEL: Governor, I believe we do
17 have someone here to speak on this matter.

18 GOVERNOR NEIL GOLDSCHMIDT: Fine.

19 DIRECTOR MARTHA PAGEL: And I want to make sure
20 also that you have the corrected page of recommendations
21 before you so that they can be on the floor.

22 ASSISTANT TO THE GOVERNOR GAIL ACHTERMAN: I
23 substituted. Yes, you've got them.

24 GOVERNOR NEIL GOLDSCHMIDT: We'll just excuse two
25 of you and maybe, Noam, you want to stay there because

1 whoever's speaking may raise questions we want to have
2 answered. Are those present who wish to be heard in this
3 matter? Please.

4 MILT BAUM: Mr. Chairman, Land Board, I'm Milt
5 Baum from the State Department of Education, and we just
6 had a couple of concerns and I wanted to relate them to
7 you. And the only thing I'm asking for is that maybe
8 some staff person could give us some explanations. Number
9 one, the State Land Board did support Measure Number 2 and
10 said that the Measure Number 2 could increase the
11 distribution from \$24.1 million to \$36 million on the
12 ballot information from the Secretary of State's office.
13 And then when the ballot measure is given to the voters
14 it said it might be a slight decrease on leveling off with
15 the Common School Fund. The actual distribution has
16 dropped from \$38 per child to \$25 per child, about a 34
17 percent decrease, and we're hearing a 10 percent increase
18 in interest rates and other things. And I guess all I
19 was asking for is that maybe we could get some kind of
20 an explanation so we could explain to the schools--

21 GOVERNOR NEIL GOLDSCHMIDT: You bet.

22 MILT BAUM: What's been going on--

23 GOVERNOR NEIL GOLDSCHMIDT: It's only reasonable.

24 MILT BAUM: Because we've been getting screaming
25 and hollering as you--

1 GOVERNOR NEIL GOLDSCHMIDT: Would expect.

2 MILT BAUM: Could understand. A 34 percent
3 increase of one-line item on the revenue side has been a
4 little bit difficult to take.

5 NOAM STAMPFER: I'd be happy to prepare that.

6 GOVERNOR NEIL GOLDSCHMIDT: Well, why don't we
7 give a brief oral explanation here and then we'll get
8 something in writing.

9 NOAM STAMPFER: The big unanticipated impact that
10 was felt by the school districts had to do with the
11 definition of operating expenses that were taken out of
12 distributable income. And the biggest item by far is the
13 forest management charges that we paid to the Department
14 of Forestry for managing the Common School Fund forest
15 lands. For this biennium it's something over \$9 million,
16 for the last biennium it was over \$8 million, which is
17 significantly larger than the rest of the Division of State
18 Lands' operating budget, more than doubling the impact on
19 the distributions and that's where--

20 GOVERNOR NEIL GOLDSCHMIDT: So it's not the
21 investment, that is the withholding of monies to invest?

22 MILT BAUM: That's never been a concern of ours
23 anyway.

24 NOAM STAMPFER: Right.

25 MILT BAUM: It was just what we were told what

1 was going to be used.

2 GOVERNOR NEIL GOLDSCHMIDT: So why are we -- oh,
3 maybe we aren't. But the presentation is indicating that
4 whatever we said was going to happen hasn't and whatever
5 they hoped wouldn't happen has. Is that succinct enough?

6 MILT BAUM: That sounds right.

7 NOAM STAMPFER: What it does is it increases the
8 negative impact and it should increase the positive impacts
9 in the future, that is accelerating the growth of the
10 Common School Fund.

11 GOVERNOR NEIL GOLDSCHMIDT: See, the chart that
12 I remember basically showed a drop in the front end and
13 showed it climbing relatively rapidly on the other end.
14 Not rapidly. I don't remember how quickly. Barbara, did
15 you want to comment?

16 SECRETARY OF STATE BARBARA ROBERTS: Yeah. As
17 I recall the discussion on this that we had at some length
18 over a period of time, not just in here but in the
19 offices we tried to do the explanatory work, was that the
20 distribution portion to the schools would now eat the
21 expense which has happened, but unfortunately while we
22 waited for the Attorney General's Opinion and all the
23 things that made the investment happen, the other side of
24 that has not yet come and won't come until the investments
25 really begin to take effect that the ballot measure

1 allowed. So there's really in a sense an inordinate cost
2 to them with none of the return yet. And long term I
3 know that our expectation is and I think clearly the
4 report we just heard would say that though they've taken
5 an early bite now, which is always unpleasant, that the
6 end product of that is that by doing this they're going
7 to be able to have the long-term advantage. And I know
8 that's hard to take at this point in time.

9 MILT BAUM: The data we received at the time was
10 from a range of three to nine percent, and it's been 34
11 percent actual.

12 SECRETARY OF STATE BARBARA ROBERTS: I don't know
13 what created that variable. That surprises me.

14 NOAM STAMPFER: I don't think the difference was
15 that great. I'd have to revisit the numbers. But I do
16 know that the one big impact was defining the interagency
17 transfer to the Department of Forestry as an operating
18 expense and it's clear from the Attorney General's Opinion
19 that it is an operating expense. It accentuates the
20 short-term pain on the part of the school district. It
21 also accentuates the growth of the Common School Fund.
22 The growth and distributions will lag behind the growth and
23 the principal.

24 GOVERNOR NEIL GOLDSCHMIDT: Let me just make one
25 point before Tony jumps in here. I think the theology of

1 this is real important not to lose sight of. The way
2 that fund was set up there was no incentive for the State
3 Legislature or this Board to put more assets in it.

4 STATE TREASURER ANTHONY MEEKER: Bingo!

5 GOVERNOR NEIL GOLDSCHMIDT: We have an asset fund
6 here that doesn't grow, we just spend whatever we get.
7 We've got all kinds of places that the Treasurer manages
8 we could put the money more intelligently if we're the
9 state government simply because over time this Treasurer,
10 his predecessors, and those who follow will manage it with
11 the Investment Council to guarantee the beneficiaries
12 actually have inflationary growth. I want to see what
13 these numbers are. I want to be clear with you what
14 we've now got is a license to hunt on behalf of the
15 school kids of the State. It's what we wanted, it's what
16 we asked the legislature and the voters for. We actually
17 have a reason now that when the legislature says, "Well,
18 we've got some money here, we could buy something or the
19 Common School Fund could buy something", we can make money
20 for the kids of this State. And I want to see the
21 report, but it doesn't deter me in the slightest from, I
22 think, our original idea.

23 STATE TREASURER ANTHONY MEEKER: But, Governor,
24 even though the expense side is now a flat deduction from
25 the Fund you also told us that you had how much in the

1 short-term account?

2 NOAM STAMPFER: \$38 million.

3 STATE TREASURER ANTHONY MEEKER: Yeah, there's \$38
4 million in the short-term account which is \$38 million that
5 wasn't there before. You had most of the proceeds in the
6 Bond Fund earning a fixed rate of return. Now you've
7 changed the operation now where you deduct management
8 expenses from the Common School Fund, which includes the
9 Elliott Forest, and you've built up your cash position to
10 make an investment for the future. So, yeah, you're going
11 to take a hit now but you're going to shift your earnings
12 gradually from an eight to nine percent range in the bonds
13 to a lifetime just in an equities market of 15 percent.
14 So that's the basic--

15 MILT BAUM: I didn't want to take anymore of
16 your time. All I wanted was an explanation.

17 GOVERNOR NEIL GOLDSCHMIDT: You're entitled to it.

18 MILT BAUM: I'll get the explanation, and our
19 data still shows from a three to nine percent, and when
20 we got a 34 percent decrease it was hard for us to
21 explain it.

22 GOVERNOR NEIL GOLDSCHMIDT: We would like to know
23 who your heirs and assigns are in case this is the last
24 meeting you ever attend because it's tough out there with
25 the schools. I know the feeling. We're out of school

1 finance. Martha?

2 DIRECTOR MARTHA PAGEL: Governor, before we leave
3 the issue just further explanation. In addition to the
4 issue of the operating expenses of the Forestry Department
5 for the Elliott State Forest, two other major management
6 decisions by the Land Board that took place after our
7 economic analysis were the decisions to go forward with the
8 new building and the decision to put money into the Tongue
9 Point dredging project. Both of those were fairly large
10 one-time hits on the fund.

11 GOVERNOR NEIL GOLDSCHMIDT: And both of which will
12 send money back over time?

13 DIRECTOR MARTHA PAGEL: Correct. Correct.

14 GOVERNOR NEIL GOLDSCHMIDT: Okay. Further
15 discussion? Others present who wish to be heard? All in
16 favor say aye.

17 SECRETARY OF STATE BARBARA ROBERTS: Aye.

18 STATE TREASURER ANTHONY MEEKER: Aye.

19 GOVERNOR NEIL GOLDSCHMIDT: Aye. Opposed the
20 same? It's unanimous.

21 STATE TREASURER ANTHONY MEEKER: You're on, your
22 way.

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1 STATE TREASURER ANTHONY MEEKER: I move that we
2 authorize the Division to go forth.

3 GOVERNOR NEIL GOLDSCHMIDT: Discussion? All those
4 in favor say aye.

5 STATE TREASURER ANTHONY MEEKER: Aye.
6 ^{Governor Neil Goldschmidt}
~~STATE TREASURER ANTHONY MEEKER:~~ Aye.

7 SECRETARY OF STATE BARBARA ROBERTS: No.

8 GOVERNOR NEIL GOLDSCHMIDT: You're a no vote?

9 SECRETARY OF STATE BARBARA ROBERTS: Yes, I am.
10 I thought you were--

11 GOVERNOR NEIL GOLDSCHMIDT: Oh, I'm sorry. That's
12 why I kept looking at you like--

13 SECRETARY OF STATE BARBARA ROBERTS: Well, I
14 thought you wanted a second and I didn't do--

15 GOVERNOR NEIL GOLDSCHMIDT: No.

16 SECRETARY OF STATE BARBARA ROBERTS: The second.

17 GOVERNOR NEIL GOLDSCHMIDT: No, no, no, that's
18 okay.

19 SECRETARY OF STATE BARBARA ROBERTS: Okay.

20 GOVERNOR NEIL GOLDSCHMIDT: Go ahead. Did you
21 want to speak to this?

22 SECRETARY OF STATE BARBARA ROBERTS: Yeah. Well,
23 I just--

24 GOVERNOR NEIL GOLDSCHMIDT: My apology.

25 SECRETARY OF STATE BARBARA ROBERTS: That's all

1 right. I have some concerns about it, Governor, and not
2 about the need for the personnel officer, and I told
3 Martha that. We had the largest agency in the state
4 government without a personnel officer until this biennium,
5 and I know how hard it is. My concern was timing. And
6 I'm not sure that they're--

7 GOVERNOR NEIL GOLDSCHMIDT: Well, I think it's
8 very likely she's going to be sent back without her
9 attended business. On the other hand, this is a very
10 peculiar institution by any standards in the state
11 government. We used to have a Board of Control that
12 managed the prisons and the hospitals and you know, for
13 all the laughter it did pretty well actually. And I can't
14 imagine that we'd have been in a situation that anybody
15 would have said to Corrections, "You can't have a personnel
16 person in the mental hospitals" or whatever; but this one
17 continues to sort of have a little bit unusual parentage.
18 And I think it's not a bad thing to raise the issue. I
19 am also not in a position for you to go there and say,
20 "We're falling on our swords about this thing" 'cause I
21 don't think we are. I will say, and I hope you will say
22 to the legislators 'cause I think we're going to send this
23 on a split vote, this has become a very entrepreneurial
24 agency and I commend it for that. I think it has looked
25 for opportunities, has brought them. We have said yes to

1 some things, no to others. Today's meeting is an example
2 of something that has taken some time to do. It is
3 another level of management responsibilities that wasn't out
4 there before. It's not so passive. I think Tongue
5 Point's an example of that. And in some respects I hope
6 you talk with them very clearly about how this agency is
7 evolving. I think what we're seeing happen with wetlands
8 is another one of these things. We thought we had it
9 cornered. I think EPA has turned it into a more
10 complicated, maybe insoluble, problem but this agency is
11 being asked to perform at I think higher and higher levels
12 of response to external expectations and they're reasonable
13 expectations. So we will get to this in the budget if
14 we don't get to it now and I think the Secretary of
15 State's comments are certainly on target too.

16 SECRETARY OF STATE BARBARA ROBERTS: And I would
17 say, Governor, that I would be its strongest supporter
18 during the regular budget period. I think they do need
19 it and they do very unique kind of hiring, not the
20 ordinary hiring that every agency in state government does.
21 I think they have a unique kind of personnel they hire and
22 I don't argue that. I think the statement that this is
23 an emergency and that this Land Board is saying this is
24 an emergency is one that I think does not meet my
25 straight-faced test.

1 GOVERNOR NEIL GOLDSCHMIDT: Who's paying for this?
2 ASSISTANT TO THE GOVERNOR GAIL ACHTERMAN: The
3 Common School Fund.
4 DIRECTOR MARTHA PAGEL: The Common School Fund.
5 GOVERNOR NEIL GOLDSCHMIDT: Yeah. Further
6 discussion? All those in favor say aye.
7 STATE TREASURER ANTHONY MEEKER: Aye.
8 GOVERNOR NEIL GOLDSCHMIDT: Aye. Opposed the
9 same?
10 SECRETARY OF STATE BARBARA ROBERTS: No.
11 GOVERNOR NEIL GOLDSCHMIDT: Two to one.
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APPROVAL OF MINUTES

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SECRETARY OF STATE BARBARA ROBERTS: I would move
for approval of the December 18 minutes.

GOVERNOR NEIL GOLDSCHMIDT: All those in favor of
approving the minutes say aye.

STATE TREASURER ANTHONY MEEKER: Aye.

SECRETARY OF STATE BARBARA ROBERTS: Aye.

GOVERNOR NEIL GOLDSCHMIDT: Opposed the same?

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1 reflected in the President's Budget and how the Department
2 of Defense fairs in the budget. In the meantime, he's--

3 GOVERNOR NEIL GOLDSCHMIDT: Been promoted.

4 DIRECTOR MARTHA PAGEL: He's been promoted, that's
5 correct. He's about to become the Assistant Joint Chief
6 of Staff. He's--

7 GOVERNOR NEIL GOLDSCHMIDT: This man is on a fast
8 track to the top is where he is.

9 DIRECTOR MARTHA PAGEL: He has talked on the
10 telephone at least twice with Congressman AuCoin since we
11 last met. In both conversations he's reassured the
12 Congressman of his commitment to the project.

13 GOVERNOR NEIL GOLDSCHMIDT: I don't think his
14 promotion reduces an exposure for us and I don't think it
15 increases it. He will obviously recommend it to his
16 successor. If he takes a personal interest in it I would
17 assume we're in better shape than ever. And if he has
18 to lose sight of it because of his other responsibilities
19 I think it's tough. But in terms of things we have
20 underway there we are on schedule? That is, the things
21 we're actually managing on your list?

22 DIRECTOR MARTHA PAGEL: Yes. We're moving ahead
23 with them. We don't have the positions in place and the
24 contacts in place yet but it's in the start-up phase.
25 We're also moving ahead with the interim uses on Tongue

1 Point, the property currently leased to CARS, Inc., and
2 those are moving ahead quite nicely. We reported at the
3 last Land Board meeting on the dredging being complete and
4 CARS, Inc., having negotiated several subleases for interim
5 uses.

6 GOVERNOR NEIL GOLDSCHMIDT: Other questions?

7 DIRECTOR MARTHA PAGEL: Okay.

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1 to reverse that structure and that's what we're here about.
2 We're trying to get that in place, and we may very well
3 be able to move in as the Division of State Lands and let
4 Economic Development move in later.

5 GOVERNOR NEIL GOLDSCHMIDT: Can I raise a
6 question? This is forgetfulness on my part because I
7 think this was raised and discussed at the time we did
8 this building. We are building this building for ourselves
9 and as tenants for others, but the hook or the direct
10 connection between us and the Fund is that it is for us
11 and it is a savings of rent we would pay elsewhere
12 returned to the Fund. Can this Fund choose to do other
13 buildings for state tenants as an investment?

14 DIRECTOR MARTHA PAGEL: Yes.

15 STATE TREASURER ANTHONY MEEKER: With the
16 constitutional amendment, Governor--

17 GOVERNOR NEIL GOLDSCHMIDT: You can now?

18 STATE TREASURER ANTHONY MEEKER: You can invest
19 in just about anything.

20 GOVERNOR NEIL GOLDSCHMIDT: And are you and the
21 General Services people discussing such opportunities?

22 DIRECTOR MARTHA PAGEL: Yes. I've talked with
23 Dan Simmons about our interest at least in being consulted
24 as he's considering development opportunities and, in fact,
25 we have been talking with one agency about the possibility

1 of doing that.

2 GOVERNOR NEIL GOLDSCHMIDT: Well, I was struck the
3 other day that the Superintendent of Education is sitting
4 over in leased space in a private building off the mall,
5 off basically away from our folks, and reminded again that
6 we've got these folks spread all over the place, and--

7 STATE TREASURER ANTHONY MEEKER: Governor, I would
8 strongly recommend that as we approach a more mature
9 investment fund that you go through the same strategy based
10 on what your liability is that the Investment Council does
11 in targeting how much should be in real estate, how much
12 should be in equities, how much in bonds.

13 GOVERNOR NEIL GOLDSCHMIDT: Are you done with that
14 subject?

15 DIRECTOR MARTHA PAGEL: Yeah.

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1 COOS BAY PULP PLANT AND BOAT RAMP

2 GOVERNOR NEIL GOLDSCHMIDT: I want to raise a
3 subject that is not on the agenda and that is to ask you
4 a question. Are you participating directly, that is the
5 staff, in the discussions about the development of the spit
6 in Coos Bay? Is the Land Board in the discussions there
7 about the pulp plant?

8 DIRECTOR MARTHA PAGEL: Yes. You're talking about
9 the pulp plant--

10 GOVERNOR NEIL GOLDSCHMIDT: Yes.

11 DIRECTOR MARTHA PAGEL: And the boat ramp? Yes,
12 we are.

13 GOVERNOR NEIL GOLDSCHMIDT: I'd like to get from
14 you whatever written information you can provide me about
15 what issues you are trying to deal with there and how
16 you're feeling about those, and I presume you'll copy Ray
17 Ramsey of the Economic Development Department.

18 DIRECTOR MARTHA PAGEL: Sure. We've met a couple
19 of times with Ray and we'll bring the Land Board members
20 up to date on what we're talking about. Briefly, the Land
21 Board's interest has to do with ownership of the bed of
22 Tenmile Lake which has been proposed as a water source
23 for the project, and that's the aspect that we're involved
24 with. Other than that, it's primarily Port and BLM and
25 community--

1 GOVERNOR NEIL GOLDSCHMIDT: Whatever it's worth,
2 I don't know how closely you're following that, but that
3 is not a bleached mill. That is not a dioxin-omitting
4 facility. It is not going to be involved in the rule
5 making with the DEQ on this subject.

6 SECRETARY OF STATE BARBARA ROBERTS: I think the
7 Tenmile thing may be broader than the bleach--

8 GOVERNOR NEIL GOLDSCHMIDT: Well, it's a separate
9 issue.

10 SECRETARY OF STATE BARBARA ROBERTS: Yeah, yeah.

11 GOVERNOR NEIL GOLDSCHMIDT: But the--

12 SECRETARY OF STATE BARBARA ROBERTS: The pulp
13 plant.

14 GOVERNOR NEIL GOLDSCHMIDT: The pulp plant itself
15 is not in traffic on these other rules. Thank you.
16 Anything else?

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1 BUILDING DEDICATION

2 SECRETARY OF STATE BARBARA ROBERTS: I have just
3 one question. When are you going to set a building
4 dedication date for the building? I think, knowing how
5 hard it is to get the three of us together for meetings,
6 it might be something we should take some early energy
7 into calendar work.

8 DIRECTOR MARTHA PAGEL: Yes. I should report
9 that we have met with Bob Buchanan and his staff to begin
10 laying out some ideas for what kind of a dedication
11 ceremony we'd want to propose to you and then we'll be
12 getting with your scheduling staff very shortly to try to
13 find a date, probably in May, when a dedication--

14 GOVERNOR NEIL GOLDSCHMIDT: Well, you know, in May
15 there's primaries in this State, if you may recall, and
16 I'd be very careful about what you do with May. I also
17 think you ought to look at what the legislature schedule
18 is for being in town for E Board events. They ought to
19 be invited to this and they shouldn't have to make a
20 special effort to come. And with a little planning I
21 think they'd appreciate the invitation. And a conversation
22 with the speaker and president is in order.

23 DIRECTOR MARTHA PAGEL: We'll report back with
24 your staff and get more feedback from you on what you'd
25 like to see in the way of a ceremony.

GOVERNOR NEIL GOLDSCHMIDT: Thank you.

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1 CERTIFICATE

2 I, Jill Hayes, hereby certify that I am a transcribing
3 machine operator for Business Support Services of Salem,
4 Inc., that as such transcribing machine operator I prepared
5 from a mechanical recording the foregoing typewritten
6 transcript of the proceedings had upon the meeting of the
7 State Land Board at the time and place set forth above and
8 that the foregoing pages; which are numbered 1 through 39,
9 both inclusive, contain a full, true and correct record of
10 all the proceedings held.

11 WITNESS my hand as transcribing machine operator this
12 31st day of January 1990.

13
14
15 
16 Transcribing Machine Operator *J.H.*

17 Proofreader/Editor: JRH/jrh/TR/dsj
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