

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
54th LEGISLATURE - REGULAR SESSION**

JOINT SUBCOMMITTEE ON LONG-RANGE PLANNING

Call to Order: By **CHAIRMAN ERNEST BERGSAGEL**, on January 24,
1995, at 8:00 A.M.

ROLL CALL

Members Present:

Rep. Ernest Bergsagel, Chairman (R)
Sen. Ethel M. Harding, Vice Chairman (R)
Sen. B.F. "Chris" Christiaens (D)
Rep. Matt McCann (D)
Rep. Tom Zook (R)

Members Excused: NONE

Members Absent: NONE

Staff Present: Nan LeFebvre, Office of the Legislative Fiscal
Analyst
Jane Hamman, Office of Budget & Program Planning
Tracy Bartosik, Committee Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: None
Executive Action: None
Other Discussion: General Fund Debt Service
Veterans' Home

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COMMITTEE DISCUSSION ON GENERAL FUND DEBT SERVICE

Lois Menzies, Director of the Department of Administration, spoke before the committee on the topic of financing the bonds that will be issued for the Long-Range Building Program. **EXHIBITS 1, 2, and 3** She said the state is looking at issuing \$71.74 million in bonds. The revenue to retire those bonds comes from two places: 12% of the coal severance tax and the Capitol Land Grant revenue, which will retire approximately \$7 million of the debt. The Department of Administration does not anticipate using any general fund money to retire the bonds. **Ms. Menzies** stated that the Montana State Hospital was taken off the schedule budget because it will be funded through savings in the operational budget.

Ms. Menzies referred to **EXHIBIT 1**, which she provided the committee. She said the proposed legislation in HB 19 allows the Capital Projects funds to retain the interest. The \$5.2 million shown in 1997 and the \$5.4 million in 1998 is based on the Revenue Oversight Committee's estimates for the coal tax money that would be redirected to state buildings.

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SEN. ETHEL HARDING asked if the \$5.2 million for FY97 was interest money. **Ms. Menzies** responded that the \$5.2 million is actually the 12% coal tax. After FY96 the entire amount would be retained in that account to retire debt and repair buildings.

SEN. CHRIS CHRISTIAENS asked why the amount remains stable at \$5.4 million each year after 1998 when it is assumed interest is going to be fluctuating. **Ms. Jane Hamman, Office of Budget and Program Planning** stated the amount of coal tax revenue will exceed the amount needed to cover debt and any balance could be appropriated for maintenance projects.

Ms. Menzies said Capitol Land Grant money is money that is reserved only for projects on the Capitol complex, which is the Capitol building and remaining buildings on grounds around the Capitol. The Department does not anticipate using that money in FY96 because the state needs to use it to retire current debt. In FY97 some bonds may be issued for the Capitol building, and that amounts to debt service costs of approximately \$767,000 in FY97, and \$815,000 in FY98. The amount of revenues will exceed the amount that is needed to retire debt, and a surplus of approximately \$500,000 is anticipated in FY97 in Capitol Land Grant money.

REP. TOM ZOOK questioned where the Capitol Land Grant revenue comes from. **Ms. Menzies** responded that it comes from royalties from oil, leases and other revenue that is generated from state lands. This money is restricted and can't be applied to anything else. The state has to apply it to existing buildings.

In response to a question asked by **CHAIRMAN BERGSAGEL, Ms. Hamman, OBPP**, stated that it is not any given percentage. It's the revenue estimates projected through the Department of State Lands on those particular sections of land. **Ms. Hamman** said all the revenue from all of sections 16 and 36 that are designated for the Capitol equals about \$1 million a year. This money can't be diverted elsewhere because of the Federal Enabling Act.

SEN. CHRISTIAENS asked for a breakdown of this HB 19 legislation. **Ms. Menzies** stated Capitol Land Grant revenue surplus is estimated to be almost \$540,000 in 1997, and about \$423,000 in FY98. Likewise, in the coal severance tax money there will be some surplus the first year in FY96 of \$100,000, and an even higher surplus in FY97 of approximately \$3 million. The reason

for the substantial difference is the building account will retain the entire 12% starting in 1997 rather than only receiving the interest the way they did in 1996. Not all the surplus can be used for any projects, because a portion of it is Capitol Land Grants money, which can only be dedicated to the Capitol complex.

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CHAIRMAN BERGSAGEL commented that the 12% coal tax is currently going into the highway reconstruction trust fund. If the money is moved from highways into the Capital Projects fund there would be a dedicated source of revenue to Long-Range Building and if the building program is significantly reduced, there will be more monies to put into maintenance.

REP. MATT McCANN asked if all the projects listed (**EXHIBIT 2**) currently exist. **CHAIRMAN BERGSAGEL** stated that they are projects proposed. He also stated that some of these projects could be considered repairs, for example the underground utilities. The Law Enforcement Academy is essentially a new proposal and parts of that proposal include Mountain View School. The Pharmacy Building is essentially a rebuild of the existing building in Missoula. The State Hospital and the correctional facilities would be considered new facilities. MSU heating plant and the Capitol Restoration project can be classified as repairs.

Mr. Tom O'Connell, Department of Administration - Architecture and Engineering Division, commented that the numbers on the handout (**See Exhibit 2**) are broken by fiscal years, so they may not show all of what would be included in any one of the projects. The Long-Range Building Program book gives the total amount of these projects.

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CHAIRMAN BERGSAGEL said the state has roughly \$5 million in which to provide maintenance for all of the state facilities. If all of the bonded building projects are not approved, there is a chance that a portion of those monies may be used for maintenance. **CHAIRMAN BERGSAGEL** also stated there are a lot of "ifs" out there dependent on HB 19. He commented that House Bills 5, 15 and 19 are going to be together so they can easily be tracked.

Ms Menzies said Capitol Land Grant money is not exclusively for the retirement of debt. About \$58,000 goes into the General Services Division operating budget for maintenance.

CHAIRMAN BERGSAGEL stated that for years no one had really taken care of the state facilities, and costs for maintenance have escalated. When the state has budget cuts, the first place they take money out is maintenance. For example, instead of patching the roof one year, a couple years down the road they need a

completely new roof. The Governor's budget has proposed an increase in the state's rental rates, with a portion of that going for maintenance.

Ms. Menzies quoted a report that **Ms. Debra Fulton** gave to her subcommittee as follows: "A search of the literature in computer building maintenance software shows that the recommended percentage expenditure facility maintenance is about 3% of the appraised building value. General Services currently reinvests only 1.94% of the appraised value of the facilities." **CHAIRMAN BERGSAGEL** stated the standard he has heard in private industry is 2% of the construction cost.

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Ms. Menzies stated the Department of Administration is now recommending a maintenance budget of 2.3% of appraised values to get closer to that 3% figure.

SEN. CHRISTIANS asked because major remodeling and maintenance of the capitol building itself has been discussed, what, if anything, is the state considering in regard to the other buildings on the Capitol complex. **CHAIRMAN BERGSAGEL** said originally the monies that are set aside for the arts and cultural grants were dedicated for preservation of art work on the Capitol complex. It was his understanding it was primarily for the art work in the Capitol Building and some in the Department of Livestock Building. **CHAIRMAN BERGSAGEL** said he has always felt money should be dedicated to preserving the Capitol and the art within it rather than to the Arts and Cultural grants.

SEN. CHRISTIAENS said he was concerned about major policy and goals of this state regarding all sorts of projects, for example how the state maintains buildings. **CHAIRMAN BERGSAGEL** stated he felt the committee should leave some record of their thoughts and opinions concerning many of these issue discussions for the next biennium's subcommittee.

Nan LeFebvre, Office of the Legislative Fiscal Analyst, said there is \$15,000 for the biennium in the cultural and aesthetic budget for Capitol Building art restoration.

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Nan LeFebvre provided background information about general obligation debt and Capitol Land Grant revenue. **EXHIBITS 4, 5, AND 6**

Ms. LeFebvre stated regardless of what revenue sources are targeted for repayment of debt, the bottom line is the debt becomes a general fund obligation if other revenue sources don't come through. It requires a 2/3 vote of the legislature to allow debt to be issued. Actual bond sales are authorized by the Board

of Examiners, which is the Governor, the Secretary of State and the Attorney General. The sale of those bonds are administered by the Department of Administration. It is risky using cost-savings which are obtained by the efficiencies of a new building as a targeted source to repay bonds, as debt service payments are an obligation as soon as the bond is issued. Then it will be about another two years before the building is complete and perhaps another year or two before they start realizing those operating savings. So for the first three to four years, there's no operating savings available to pay that debt service. Theoretically, for the first two years, the debt service payments for the State Hospital are going to have to come out of the Long-Range Building Program or be a general fund debt service obligation. **Ms. LeFebvre** also stated the numbers on the handouts she provided do not include the Montana State Hospital, that is why the numbers in **EXHIBIT 1** and **EXHIBIT 5** differ.

Ms. LeFebvre commented that when debt service is issued, a 20-year commitment is made by the state. She also stated that the statute for the coal severance tax money that's currently being allocated to the highway reconstruction trust fund continues through to the year 2003. Because diesel and gas tax revenues have been so high, the highway department no longer needs that amount of money, so it makes sense to reallocate that 12% coal tax money elsewhere. She asked that the committee keep in mind that if future legislatures were to reallocate that money for another purpose, there would still be debt payments to make. Another consideration would be future legislatures reducing the coal tax rate, which also would reduce the revenue available for debt service.

Ms. Cathy Muri, Department of Administration Management Support Division, stated the Capitol Land Grant revenue varies from year-to-year. On the average it is estimated at \$900,000. For example, actual collections in FY94 were \$1.4 million, however based on information provided by the Department of State Lands regarding anticipated reduction in timber sales, the total projected amount of Capitol Land Grant revenues for the 1997 biennium is only about \$1 million. It drops to \$464,000 for FY95 and \$590,000 for FY96. Then it is projected to go up again to \$927,000 for FY97. These are the estimates adopted by the Revenue Oversight Committee. Revenues could come in much higher and closer to what they were in FY94, but based on the estimates, the Capitol Land Grant revenue will drop by \$1 million this fiscal year.

In response to a question asked by **REP. McCANN, CHAIRMAN BERGSAGEL** stated that the projected change in revenues for FY98 reflects debt reduction. He stated that the bonds for the Metcalf Building and the addition to the State Library will both be paid off.

SEN. CHRISTIAENS said he was concerned that if the state of Montana bonds for all of the projects being requested for the

next 20 years, there is no way to predict if an even more vital building will arise in the next several sessions for which funding will not be available.

REP. ZOOK commented that the 12% coal tax reallocation may not be easy to get through the legislature, especially when people are concerned about a large building project.

{Tape: 2; Side: A; Approximate Counter: 96}

DISCUSSION ON VETERANS' HOME

CHAIRMAN BERGSAGEL noted that the Veteran's Home last session was left in a semi-privatized state. The facility was paid for with cigarette tax money and some federal matching funds. Last session the subcommittee allocated almost \$300,000 to subsidize the operation for the first two years. When it was all said and done they took \$2 million of building program cigarette tax for the operation of the facility in Columbia Falls, leaving \$600,000 "floating." The legislature, in HB 5, allocated \$300,000 for the acquisition of linens, operation monies, a vehicle, and other items to get the Glendive facility up and running. They negotiated with a health care management corporation in Glendive to take over the facility. There is currently another rest home in Glendive. CHAIRMAN BERGSAGEL stated he was part of the discussions this last summer and found it incredibly interesting that the Veterans' Home anticipated operating at a loss for a long time. They indicated they had made some inquiries about the possibilities of getting people to move into the Veterans' Home and the response they received was people didn't want to move because it would cost them more money to stay in that facility than what they were currently paying in other rest homes.

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SEN. CHRISTIAENS asked what decisions the Veterans' Home is able to make with an obligation to a lease. CHAIRMAN BERGSAGEL said the lease is up in three years and he expects that it will be known next legislative session whether or not they are going to renew their lease or whether the state will be trying to sell the new facility.

DISCUSSION ON INCREASING MAINTENANCE

Ms. Hamman, OBPP, stated that in the dialogue her office had with the Governor he wanted to spend \$10 million a year on maintenance during the 1997 biennium. As project after project was looked through, it was discovered that the capacity wasn't there to spend that much per year, and so it was scaled back to what is in this budget. As talks develop about what should be done for maintenance, realistic goals in terms of a total maintenance package should be looked at.

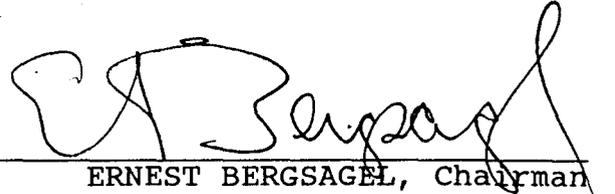
Ms. Debra Fulton, Department of Administration, agreed with **Ms. Hamman** and stated that her staff simply isn't large enough on the Capitol complex to do any more than is being proposed. She said they are looking in future years to balance the staffing with the money available if there is a need to "gear up."

SEN. CHRISTIAENS asked that they not let those problems deter the Department's enthusiasm to come up with maintenance money, because, he said, there are ways to do it. "If you have to staff up for a period of time and then drop back down, or prioritize more, these are all ways of dealing with it." He also stated there's no question that some maintenance money is needed.

Mr. Ralph DeCunzo, Architecture and Engineering Division of the Department of Administration, defined the three categories of maintenance as building modification and alteration, true deferred maintenance, and life/safety issues and disabled access. He stated that in the past all of those have been lumped into one big category. He proposed that the state begin to target those three categories separately.

ADJOURNMENT

Adjournment: 10:15 a.m.



ERNEST BERGSAGEL, Chairman



TRACY BARTOSIK, Secretary

EB/tb

LONG RANGE PLANNING

Joint Appropriations Subcommittee

ROLL CALL

DATE 1-24-95

NAME	PRESENT	ABSENT	EXCUSED
Rep. Ernest Bergsagel, Chairman	X		
Rep. Matt McCann	X		
Rep. Tom Zook	X		
Sen. Ethel Harding, Vice Chairman	X		
Sen. Chris Christiaens	X		

GENERAL FUND DEBT SERVICE

(In Millions)

Fiscal Year	Current		New Debt*	Projected Fiscal Year Total	New Revenues		Capital Land Grant	Projected New Revenues	Surplus Revenues		
	Fiscal Year Total	Fiscal Year Total			Coal Tax	Capital Land Grant			Coal Severance Surplus	Total Projected Surplus	
1995	14.428	0	0	14.428	0	0					
1996	7.682	0.230	0.230	7.912	0.339	0.339		0.339	0.109	0.109	0.109
1997	3.981	2.400	2.400	6.381	5.258	5.258	0.538	6.025	3.087	3.087	3.625
1998	3.777	4.790	4.790	8.567	5.400	5.400	0.842	6.242	1.029	1.029	1.452
1999	3.664	4.790	4.790	8.454	5.400	5.400	0.815	6.215	1.245	1.245	1.425
2000	3.640	4.790	4.790	8.430	5.400	5.400	0.814	6.214	1.244	1.244	1.424
2001	3.479	4.790	4.790	8.269	5.400	5.400	0.814	6.214	1.247	1.247	1.424
2002	3.482	4.790	4.790	8.272	5.400	5.400	0.814	6.214	1.242	1.242	1.424
2003	3.476	4.790	4.790	8.266	5.400	5.400	0.815	6.215	1.242	1.242	1.425
2004	3.171	4.790	4.790	7.961	5.400	5.400	0.814	6.214	1.242	1.242	1.424
2005	3.152	4.790	4.790	7.942	5.400	5.400	0.814	6.214	1.246	1.246	1.424
2006	3.144	4.790	4.790	7.934	5.400	5.400	0.815	6.215	1.245	1.245	1.425
2007	3.149	4.790	4.790	7.939	5.400	5.400	0.830	6.230	1.246	1.246	1.440
2008	3.150	4.790	4.790	7.940	5.400	5.400	0.830	6.230	1.245	1.245	1.440
2009	3.303	4.790	4.790	8.093	5.400	5.400	0.830	6.230	1.243	1.243	1.440
2010	3.394	4.790	4.790	8.184	5.400	5.400	0.837	6.237	1.245	1.245	1.447
2011	3.411	4.790	4.790	8.201	5.400	5.400	0.900	6.300	1.245	1.245	1.510
2012	3.417	4.790	4.790	8.207	5.400	5.400	0.900	6.300	1.242	1.242	1.510
2013	3.428	4.790	4.790	8.218	5.400	5.400	0.900	6.300	1.243	1.243	1.510
2014	1.772	4.790	4.790	6.562	5.400	5.400	0.900	6.300	1.246	1.246	1.510
2015	0.135	4.790	4.790	4.925	5.400	5.400	0.900	6.300	1.242	1.242	1.510
2016	0	4.790	4.790	4.790	5.400	5.400	0.900	6.300	1.245	1.245	1.510
2017	0	4.790	4.790	4.790	5.400	5.400	0.900	6.300	1.245	1.245	1.510
Totals	82.235	98.43	98.43	180.665	113.597	113.597	17.751	131.348	27.865	27.865	32.918

*Warm Springs State Hospital project of \$18,000,000 has been removed

Prepared by Department of Administration January 1995

EXHIBIT 1
 DATE 1-24-95
 #B _____

EXHIBIT 2
 DATE 1-24-95
 RB

LRBP BONDING PROGRAM
 DRAWDOWN AS OF 1/06/95

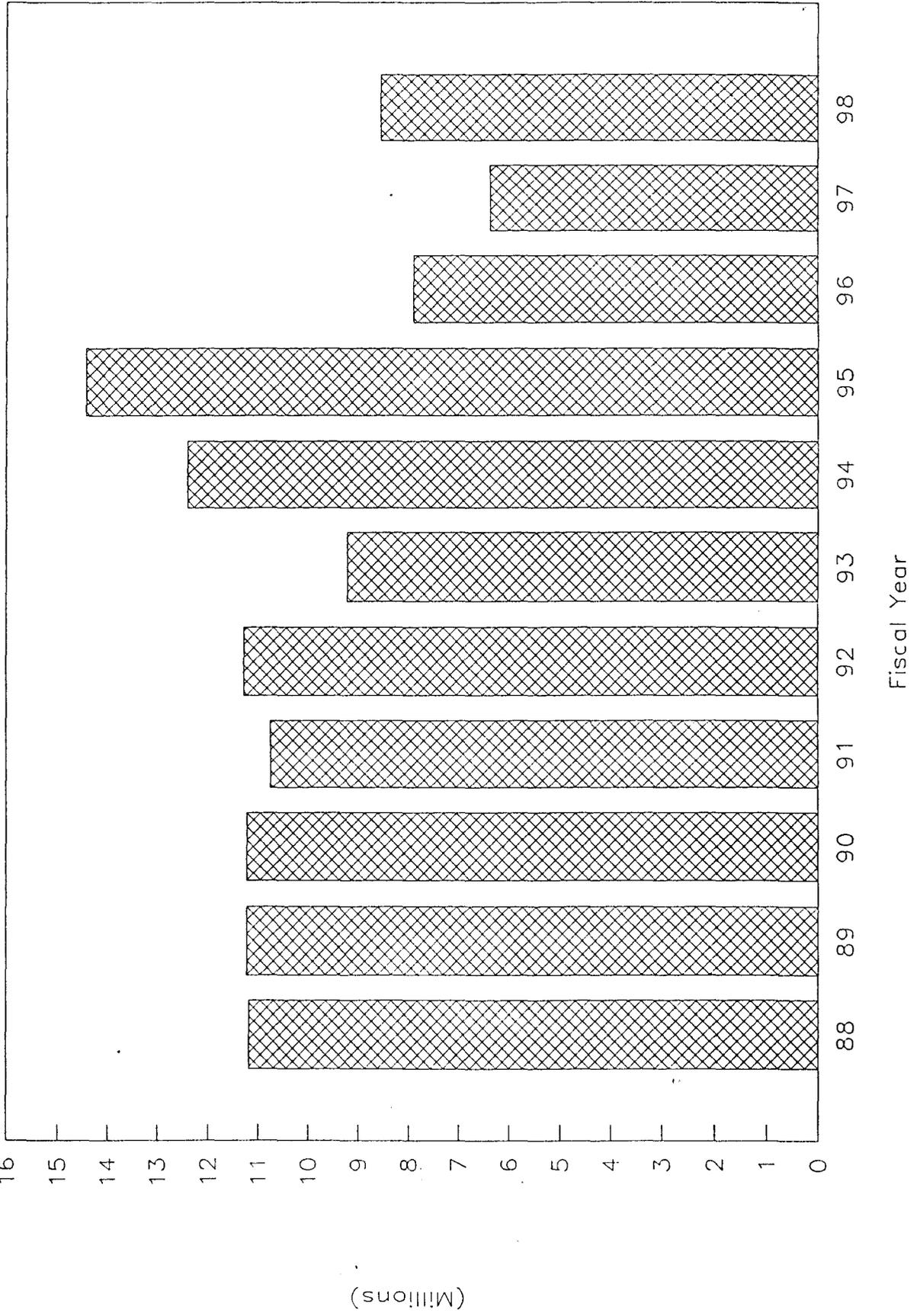
PROJECT	FY96	FY97	FY98
Swan River	560,000		
Cascade Correctional Facility	4,100,000		
MSP		3,740,000	
Correctional Facilities		2,000,000	2,900,000
Capitol		5,000,000	12,911,000
MSU Heating Plant		3,000,000	
State Hospital*		18,000,000	
Chemistry Bldg			4,536,000
Underground Utilities		6,000,000	
Law Enforcement Academy	500,000		6,500,000
Pharmacy			
Totals	5,160,000	39,740,000	26,847,000

* State Hospital will be funded through Corrections' Operations budget

Prepared by Department of Administration January 1995

GENERAL FUND DEBT SERVICE EXPENDITURE

(Includes 97 LRBP Proposal)



Long-Range Building Program General Obligation Debt

General Obligation Debt

The full faith and credit and taxing powers of the state must be pledged for the payment of all bonds and notes issued pursuant to this part, with all interest thereon and premiums payable upon the redemption thereof. All principal, interest, and redemption premium, if any, becoming due during a fiscal year must be included in the state budget for such year, and sufficient revenues must be appropriated for payment thereof from the general fund and, if the general fund is not sufficient, from any other funds of the state legally available for payment thereof. 17-5-802(2), MCA

- Authority to issue debt requires a 2/3 vote of the legislature
- Debt issues are authorized by the Board of Examiners and administered by the Department of Administration.
- Outstanding LRBG G.O. debt is shown in Column 2 of Table 4 (attached).

Capitol Land Grant Revenue

According to Section 12 of the Enabling Act, capitol land grant revenue can be used for:

...for public buildings at the capital of said states for legislative, executive, and judicial purposes, including construction, reconstruction, repair, renovation, furnishings, equipment, and any other permanent improvement of such buildings and the acquisition of necessary land for such buildings, and the payment of principal and interest on bonds issued for any of the above purposes.

- A summary of outstanding debt currently being serviced by capitol land grant revenues is attached.

Table 4
 General Fund Debt Service
 (In Millions)

Fiscal Year	Current Fiscal Year Total	*New Debt	Projected Fiscal Year Total
1995	\$14.428	\$0.000	\$14.428
1996	7.682	0.000	7.682
1997	3.981	2.215	6.196
1998	3.777	4.431	8.208
1999	3.664	6.503	10.167
2000	3.640	6.501	10.141
2001	3.479	6.504	9.983
2002	3.482	6.503	9.985
2003	3.476	6.501	9.977
2004	3.171	6.503	9.674
2005	3.152	6.503	9.655
2006	3.144	6.501	9.645
2007	3.149	6.504	9.653
2008	3.150	6.502	9.652
2009	3.303	6.503	9.806
2010	3.394	6.501	9.895
2011	3.411	6.501	9.912
2012	3.417	6.501	9.918
2013	3.428	6.500	9.928
2014	1.772	6.503	8.275
2015	0.135	6.500	6.635
2016	0.000	6.502	6.502
2017	<u>0.000</u>	<u>6.503</u>	<u>6.503</u>
Totals	<u>\$82.234</u>	<u>\$130.185</u>	<u>\$212.419</u>

* Payments are calculated based on an interest rate of 6.4%.

EXHIBIT 6
DATE 1-24-95
SB _____

**Outstanding Debt Currently Funded
With Capitol Land Grant Revenue**

<u>Year</u>	<u>Debt Payment</u>
FY 90	\$2,223,289
FY 91	2,215,057
FY 92	1,281,039
FY 93	1,216,480
FY 94	1,287,615
FY 95	1,206,514
FY 96	1,170,018
FY 97	388,723
FY 98	58,184
FY 99	85,136
FY 00	86,099
FY 01	85,708
FY 02	85,514
FY 03	85,472
FY 04	85,531
FY 05	85,618
FY 06	84,709
FY 07	70,263
FY 08	70,275
FY 09	70,289
FY 10	62,977