

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

April 12, 1977

The sixty-seventh meeting of the committee was held on the above date in Room 415 of the Capitol Building, called to order by Chairman Mathers at 8:05 a.m.

ROLL CALL: Roll call found all the members present.

The following witnesses were present:

Harold Floyd	Opportunity Inc.
Arthur Lewis	"
Marlin Noble	Dist. 11 HRC
John A. Hauf	Board of Investments
Jim Howeth	"
Dean H. Albert	"
Zeia V. McCoy	Self
Alice Searle	"
Lyle E. Olson	Mont. Board of HSE
John T. Cadby	Mont. Bankers Assoc.
Harold Pitts	Mont. Independent Bankers

CONSIDERATION OF HB531: Rep. Lien, Dist. 49, said this bill sets up a temporary stripmine research reclamation act. The bill was amended in the House and the appropriation was cut there, bringing the amount down to \$80,000 per annum. He said the bill directs the money to be used for a particular project of the Land Department, on which they need additional information through research. He said there have been problems in several places where industry research shows one conclusion and other research indicates another. This appropriation would be used for a non-biased group to do research on projects from root depth plant studies to burying of sodic soils, and both the industrial researchers and the others stated their willingness to accept the results of this research. This aspect, he continued, has also been endorsed by the coal industry. He then introduced Mr. Barry of the State Lands Dept., who stated that the bill was originally an Env. Quality Council bill and the department had not been involved in research to this point. However, he stated the department had run into several problems in these areas and need additional information such as might be obtained through such research. Mr. McCall said they needed additional information about rooting depth studies and to perfect varieties of grass, plans, etc., that are impervious to Montana's extreme weather conditions.

Following their testimony Chairman Mathers asked for other proponents and opponents and there being none, permitted questions by the committee. Sen. Roskie asked details of Mr. McCall and Mr. Barry concerning other groups that also conduct such research in the state, and whether or not their research results could not be

used for this purpose. He also questioned if the Department would have to add additional personnel to conduct such research. The Department representatives informed him that the studies would likely be contracted out to college-connected groups. Sen. Roskie also asked if they would accept an amendment to a pre-staffed, ongoing agency doing this research.

Rep. Lien made his closing remarks and following this, the hearing on HB531 was closed.

CONSIDERATION OF HB701: Rep. Frates, Dist. 60, presented his bill which he said is a more simple weatherization program. He said it has been found there are about 30,000 homes that are eligible for the program and the savings in fuel consumption for this number of homes would amount to a considerable savings in money and fuel in the state in a year. He said there are matching Federal funds that are available for such programs, and local communities, counties and towns, are also contributing to the program. The program has been carried on by local governments to this time, matching Federal funds, and he asked, through this legislation, that the state also assist with such programs. Those benefiting most were those who needed it most, mainly senior citizens, he stated. Mr. Floyd next spoke as a proponent and said he had made a sample test of 15 homes in the Great Falls area and he had found there was almost a 40% savings in cost of fuel, averaging about \$238 per house. He said that in 15 months the savings would more than pay the cost of the weatherization program. He distributed numerous items of testimony, all in Exh. #1, showing by chart the results of the winterization in 15 sample homes, also letters from individuals who had benefited through the program.

Mr. Lewis said he takes applications for such programs from senior citizens and he had figured average cost for gas of a number of houses at \$47.05 per month. Six months later, after winterization, he said the same houses were averaging at \$22.00 (approx.) per month. Taking such figures, he said, the savings on 175 homes, all winterized, could amount to as much as 1/4 million cu. ft. of gas over a period of a year. Mr. Noble also spoke as a proponent and said they had completed such a program in just over 300 homes where savings ran about 28% and cash savings of about \$70 per individual for the season.

Other proponents included Mrs. McCoy and Mrs. Searle, both of whom testified how the program had helped them. Mr. Luer testified also saying they had improved 322 homes, many of them belong to senior citizens.

Rep. Frates then made his closing and pointed out that 49.4 billion BTU savings have been realized in the state since the program's inception.

At this point the committee asked a number of questions and several exhibits, #2 and #3 were distributed showing an Energy Conservation Projections chart, also testimony from DCA. Mr. Rupp of

DCA explained the formula that is specified in the bill, providing for the matching funds. Sen. Turnage questioned the term in the bill pertaining to 'sub-state planning districts' and also asked about distribution of funds.

CONSIDERATION OF HB754: Rep. Meloy said the bill provides the investment of 10% of coal tax trust funds to be invested in securities which promote energy conservation and alternative energy development. His brief testimony was followed by the presentation of Mr. Cadby who said he agreed with the intent of the bill though he thought it might be well to apply some kind of a fixed percentage on money loaned to institutions.

Speaking in opposition was Mr. Albert who said the bill is incompatible with the function of the Board of Investments. He said he thought the bill would require a new staff as it is not in the tradition of the B. of I. and he thought perhaps it should be under DCA or some other department. With the Board operating under the prudent man rule he felt that the legislation was in conflict with their purposes. Mr. Hauf was next to speak and said he thought the bill has problems. He said he was not opposed on the philosophical grounds but he felt it would limit the powers of the Board to get the maximum return, following the prudent man rule. Mr. Howeth said he would like to point out that SB44 deals with coal tax trust funds and allows the Board to invest in a normal manner. He said HJR 2 sets up a study committee to determine the best means of investing such funds and felt it best to wait the study results.

Rep. Meloy then made his closing remarks and said he thought the committee should decide if the prudent man rule is to be applied as in every other trust fund, or if they would instead determine that there are other returns besides the monetary return. He said he referred to putting moneys in state banks, instead of New York banks. He said he believed there was a philosophical decision to be made in this matter and that the bill is designed to take a very small portion of the trust fund to carry out its intent. Also, he said he does not understand why the Board would need additional staff.

CONSIDERATION OF HB482: Rep. Fabrega, Dist. 44, said this bill does not mandate the investment of the coal tax trust funds, but does suggest certain rules should be changed in regard to their use, allowing the funds to be invested if they are invested in mortgages. He said that the Board of Housing had put out \$19 million and in a week the bonds were gone. He said the housing market needs money at better rates than what are available now. He said this would create jobs in an industry that is fairly well depressed in this state and could possibly save perhaps \$2 million in unemployment payments, plus expansion of the tax base.

Mr. Albert spoke next saying although he didn't disagree with the philosophy of the bill, he felt it would dilute the Board's efforts in having to work for the state on social purposes. He said it was his thought this should be done in some other department. Mr. Howeth said the Board is already investing in Montana mortgages, with about \$45 million out at this time.

Mr. Groff spoke, appearing as Chairman of Board of Housing, and said they do not oppose the idea, but said if you are going to go into subsidization housing you are going to cut interest rates. If you want to go into the philosophy you must redefine the term "average income" as well, and feel there should be an interim study to set up and channel loans to the general public. Reserves should also be set up to cover losses.

CONSIDERATION OF HB292; Rep. Meloy said the difference between this bill and SB167 is that old property tax is being replaced and it is being transferred to an income tax deduction. The bill relates to all conservation purposes as well as alternative energy systems. He pointed out the Fiscal Note and said the fiscal impact is considerably less. Mr. Groff appeared in support of the bill as did Mr. Winsor of the Montana C of C.

The committee asked a number of questions regarding the maximum deductions and it was mentioned that since some project might have been begun on the strength of receiving help, it might be necessary to amend the bill with the insertion of a 'grandfather clause.'

The meeting was then adjourned.


WILLIAM MATHERS

CHAIRMAN

ROLL CALL

SENATE TAXATION COMMITTEE

45th LEGISLATIVE SESSION - - 1977

Date 4/12/77
A.M.

NAME	PRESENT	ABSENT	EXCUSED
SEN. WATT	✓		
SEN. BROWN	✓		
SEN. GOODOVER	✓		
SEN. HEALY	✓		
SEN. MANNING	✓		
SEN. NORMAN	✓		
SEN. ROSKIE	✓		
SEN. TOWE	✓		
SEN. TURNAGE	✓		
CHAIRMAN MATHERS	✓		

Each day attach to minutes.

DATE 4/13/77

COMMITTEE ON

TAXATION

292, 482, 531, 701, 754 VISITORS' REGISTER

VISITORS REGISTER			Check One	
NAME	REPRESENTING	BILL #	Support	Oppose
Harold Floyd	Gt. Falls, MT Opport. Inc.	701	✓	
ARTHUR LEWIS	OPPORT. INC.	701	✓	
MARLIN NOBLE	DIST 11 HRC	701	✓	
John A. Haus	Board of Investments	754 482		✓
Tim Howeth	Board of Investments	754 482		✓
Dean H. Albant	Board of Investments	754 482		✓
Zeia V. Mc Coy		701	✓	
John Searle		701		
E. E. Olson	MONT. Board of Hse	482		
John T. Cobby	MONT Bankers assn	754	?	?
Harold Pitts	Mont Independent Bankers	754		X

4-12-77

#1

SAVINGS Effect of WINTERIZATION ON COSTS AND AMOUNT OF ENERGY

TEST of 15 SAMPLE HOMES

AVERAGE COST OF ENERGY

BEFORE WINTERIZATION	\$47.05 per Home
AFTER WINTERIZATION	\$29.92 per Home

AVERAGE ENERGY SAVED

BEFORE WINTERIZATION	285 cu. ft.
AFTER WINTERIZATION	175 cu. ft.
TOTAL ENERGY SAVED	110 cu. ft. per.

AVERAGE COST PER HOME	238.75
ANNUAL SAVINGS PER YEAR - PER HOME	205.56

TOTAL COST AMORTIZED IN 14 MONTHS.

MINIMUM LIFE SPAN OF WORK - 10 YEARS.

GAS COMPANIES SEND OUT HEAT LOSS
DETECTIVES AND RECOMMEND INSULATION AND
OTHER SOLUTIONS. THEIR COSTS ARE MUCH
HIGHER, PLUS 5% INTEREST.

NOT ONLY DOES OUR PROGRAM SHOW LOWER

#2

In the current energy crisis, conservation offers the people of Montana a savings in dollars and fuel consumed. As Governor Judge has stated:
"Montana should become the nation's leader in conservation of its energy resources and elimination of waste in their usage."

The Human Resources Division/DCA administers the statewide Emergency Energy Conservation Program. This program assists the low-income and the elderly, who suffer the most from rising fuel costs. The increase in these costs has been 15 per cent in the last 16 months alone. The Program emphasis is placed on people with fixed incomes. However, this program differs from ordinary aid programs because of its unique design. The returns from this program continue to accrue year after year without any additional expense. With savings in fuel consumption of 20 to 25 per cent, the initial cost of this program is recovered in 4 to 5 years. Whereas low income and elderly fixed-income families spend 11 per cent of their budget on utilities, this amounts to a substantial savings.

Since August of 1975, when the Human Resources Division began the emergency conservation program, the following results have been reported:

A total of 2,205 Montana homes have been weatherized under this program. On average, these homes are now 21 per cent more efficient in their use of fuel, as measured by the Energy Consumption Ratio(ECR). Another result is that fuel consumption has been reduced by 22 percent. These reductions may

be translated to a financial savings of approximately \$64 and a fuel savings of 160 gallons of Fuel Oil #2 per home per year. These figures are based on an average yearly Montana utility bill of \$330 per family. For the entire program, this is a savings in total dollars of over \$134,000 in reduced fuel bills and in fuel consumption of over 336,000 gallons of Fuel Oil #2. This converts to a BTU savings of 49.4 B for Montana.

With the program to date, matching money has been generated by city, county and federal funds. The only governmental entity left is the state. Whereas the recommendation of the Montana Energy Advisory Council (see plan p.) is supportive of the program; I believe the state should live up to its obligation and receive the largest winterization program available for its low-income and senior citizens.

this is exactly what HB 701 offers.

Total Funds

State	33 1/3%	\$ 75,000	
Federal	66 2/3%	<u>150,000</u>	
		\$225,000	\$225,000

State	25%	\$ 75,000	
Local	15%	<u>45,000</u>	
Non Federal	40%	\$120,000	
Federal	60%	<u>180,000</u>	
		\$300,000	\$300,000

Energy Conservation Projections

	Homes	Fuel Bills	Fuel Consumption Gallons Fuel #2	B.T.U.	E.C.R. Efficiency Increase	Per Cent Fuel Consumption Reduced
7/1/75 - 1/1/77	2205	141,120	352,800	43.33 Billion	21%	20%
1977	2100	134,000	336,000	49.4 Billion	21%	20%
1978	2100	134,000	336,000	49.4 Billion	21%	20%
1979	2100	134,000	336,000	49.4 Billion	21%	20%
1980	2100	134,000	336,000	49.4 Billion	21%	20%
TOTAL 701	8400	536,000	1,344,000	197.6 Billion	21%	20%
TOTAL 7/1/75 - 7/1/81	10,605	677,120	1,696,800	245.9 Billion	21%	20%

#3

April 12, 1977

90281/
4-12-77

BEFORE THE TAXATION COMMITTEE

OF THE MONTANA STATE SENATE

TRANSCRIPT OF TESTIMONY OFFERED

BY DEAN H. ALBERT, CHAIRMAN, BOARD OF INVESTMENTS,

IN OPPOSITION TO HOUSE BILLS 482 AND 754

Mr. Chairman, Members of the Committee on Taxation, my name is Dean H. Albert, and I am Chairman of the Montana Board of Investments, and I wish to testify in opposition to House Bills 482 and 754.

Opposing House Bill 482

1. While this bill may fulfill certain social and economic benefits upon which I render no opinion, it is difficult for me to ascertain from the bill that its intent is truly an investment function. The bill provides for subsidized housing, and does not seem compatible to the legislative charge given to the Board of Investments to implement State funds.

2. If the bill has merit, it appears to me that it would be better administered by the Board of Housing which is named in the bill on line 24 of page 6 indicating a requirement for Board of Housing approval in any event.

3. The Board of Housing has a greater capability for bookkeeping and administration of this type of implementation of funds than does the Board of Investments and if this type of subsidy for housing is to be implemented it ought to be done under the Board of Housing's auspices.

4. Because of the above reasons, I am opposed to the bill in its present state.

House Bill 754

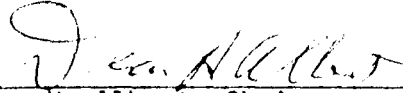
1. This bill has economic and sociological aspects that may or may not have merit, and I cast no judgments thereon, but by no stretch of my imagination can I construe this bill as an investment function.

2. The investment staff of the Board of Investments particularly, and the Board itself generally, pride themselves on an expertise applied to investment of State funds, yet this bill appears to require an administrative staff that would be entirely separate from and need none of the expertise now present within the staff or on the Board of Investments since it does not involve investments in the normal definition of that term.

3. If a new staff, which I think would be needed, is required to implement the terms of this bill, then it might more readily come through the Department of Community Affairs, the Department of Natural Resources, or one of the areas of State government having an expertise in the areas to which the bill is addressed, while if the Board of Investments is charged with this undertaking it could substantially dilute the staff capability and the expert investment practices now being implemented by the Board of Investments.
4. This bill would seem to violate the charge of the Board of Investments to implement the prudent man rule.
5. The bill is generally ambiguous and some specific problems which lack my understanding are on page 11, line 1 speaking to only 10% of coal tax trust funds may be invested...(1) what is the other 90% to be invested in? (2) what happens to funds out of that 10% that cannot be invested immediately in the suggested loans?
6. The bill does not seem to provide for use of industrial revenue bonds, which may be a viable mode of implementing the intent of the bill, if in fact the bill were to be passed.
7. Page 8, line 21 coupled with page 11, line 25 seems to provide too much latitude relating to rate and raises a question of subsidy to which the Board is not prepared to address itself. For instance, could the Board purchase CD's from banks at a rate of 1% insisting that the bank then loan funds for the purposes intended at 3½%?
8. How is the Board to tie the maturity of time certificate funds to the maturity of the loan, and what procedures of audit follow-up are expected to enforce the intent of the legislation.
9. The Board of Investments is not eager to undertake the type of activity described, and should it ultimately have to bear that burden would suggest that because of the complexities of the intent and the ambiguity of the language of the bill in no way could rules be proposed to define eligible investments by August 31, 1977, for there is no expertise on the staff, there is no known precedent, and consultation with all of the suggested agencies would be extremely time consuming.
10. Even the intent of the bill seems ambiguous and confusing where terms relating to "energy generation", "energy - consuming equipment", "energy conservation" seem to be used interchangeably with different definition.

I urge the defeat of this bill.

Respectfully submitted,



Dean H. Albert, Chairman
Board of Investments