SELECT COMMITTEE ON ECONOMIC DEVELOPMENT

HOUSE OF REPRESENTATIVES

48TH LEGISLATURE

ATTENDANCE

DATE: Feb. 1, 1983

ROOM: 224K

	PRESENT	ABSENT	OTHER
VINCENT, John - Chairman	X		
SCHYE, Ted - Vice-Chairman	X		
ASAY, Tom	X		
DARKO, Paula	X		
FABREGA, Jay	X		
FAGG, Harrison	X		
HANSEN, Stella Jean	X		
HARPER, Hal	X		
HARRINGTON, Dan	X		
METCALF, Jerry	X		
NEUMAN, Ted	X		
RAMIREZ, Jack	X		
VINGER, Orren	X		

MINUTES OF MEETING OF SELECT COMMITTEE ON ECONOMIC DEVELOPMENT

February 1, 1983

The second meeting of the Select Committee on Economic Development was called to order by Chairman Vincent in room 224K of the capitol building at 7:02 p.m. on February 1, 1983.

ROLL CALL

All members were present.

REPRESENTATIVE VINCENT said that the bills would be heard in the following order: HB 325 sponsored by Representative Kitselman, HJR 11 sponspored by Representative Harrington, HJR 4 sponsored by Represenative Nordtvedt and HB 371 sponsored by Representative Kemmis.

HOUSE BILL 325

REPRESENTATIVE KITSELMAN stated that this bill was not needed at this time and requested that it be tabled. He said that the department is able to handle this under current rules.

DENNIS REHBERG, representing the Montana Association of Realtors rose as a proponent of this bill, but said that they do not want to put the Board of Housing in direct competition with banks, savings and loans and credit unions and this bill would do that.

SENATOR TOWE made a statement in favor of this bill, saying that this is exactly the kind of thing that we should be doing more of and exactly the kind of thing banks would like to do and that it can be done right now.

There were no opponents and no questions.

REPRESENTATIVE KITSELMAN closed and requested that the bill be tabled.

HOUSE JOINT RESOLUTION 11

REPRESENTATIVE HARRINGTON gave a history of the resolution and explained that it was initiated by a delegation from Butte, Silver Bow and the surrounding area, because of the closure of the Butte mines. He stated that this is the first of many bills that are going to come to the legislature that will address the problems that they are going to be faced with. He declared that water is filling up in the pits and he wondered what is going to happen and who is going to be responsible.

SENATOR JUDY JACOBSON, District 42, stated that she was a real supporter of this resolution and that many of her friends, constituents and family members were victims. She said that she strongly felt that when generations of families dedicate their lives to the prosperity of a corporation, then corporations should acknowledge a responsibility to the community and families that make up that community.

ARLYN PLOWMAN, an unemployed cement worker representing the United Cement, Lime, Gypsum and Allied Workers, local 239, Three Forks, offered testimony in favor of passage of this resolution. (See Exhibit A.)

JIM MURRY, Executive Secretary of the Montana State AFL-CIO submitted testimony. (See Exhibit B.)

REPRESENTATIVE NANCY KEENAN, District 89, testified in favor of this resolution and stated that there were great shock waves caused by the plant's closure and that she represented the people that felt the pain, anger, denial and finally acceptance and she felt that corporations should have a responsibility to the community and the residents thereof.

PAM CAMPBELL, representing the Butte Community Union, said that this union was formed as the result of the closure of the mines. She stated that she has watched the decay, the increase in alcohol abuse and battered women caused by these layoffs. She testified that many have exhausted their unemployment benefits and are now turning to welfare and that their group supported this resolution.

REPRESENTATIVE MENAHAN, District 90, stated that he wished we could send the LFA to work for Arco and wondered what unscrupulous people are running that organization. He emphasized that Mr. Cox and his fellow big shots have not taken any pay cuts and his wages go on.

NANCY HARTE, legislative coordinator for the Montana Democratic Party, testified in support of this resolution. (See Exhibit C.)

SUSAN COTTINGHAM, representing the Montana Environmental Information Center, stated that they strongly endorse responsible stewartship and prudent corporate responsibility.

REPRESENTATIVE HAFFEY, District 45, stated that he worked with Representative Harrington in drafting this resolution and he stated that voluntary corporate responsibility has a role to play in a healthy economic environment.

TOM RYAN, from the Montana Senior Citizens Assoication, said that he was not necessarily representing the Montana Senior Citizens Association, but was there as a former Montana history teacher, who has some knowledge and experience in similar situations. He gave some history as to why the present problems have come about, and stated that this resolution is heading in the right direction.

There were no opponents.

REPRESENTATIVE METCALF stated that the resolution did not seem to be directed to anyone and thought that it should be sent to the Governor of the state of Montana, the president of the Atlantic Richfield Company and others.

REPRESENTATIVE HARRINGTON said that he would have no problems with that.

REPRESENTATIVE HARRINGTON made a closing statement.

REPRESENTATIVE VINCENT noted that REPRESENTATIVE QUILICI, REPRESENTATIVE BACHINI AND REPRESENTATIVE DAILY all wanted to be here to support this bill, but were unable to attend.

HOUSE JOINT RESOLUTION 4

REPRESENTATIVE NORDTVEDT explained this resolution and handed out a breakdown of the state funds that could be affected by this resolution. He said that he would see it as an important goal that someday that certain members of both parties of the legislature have expertise and awareness of the actuary balance of retirement funds.

REPRESENTATIVE KEMMIS stated that he supported the generally concept of this resolution and he asked if the committee might consider whether the general investment policy of the state might need some added oversight and structure for accountability. He said that he had some ideas along this line and would work with the committee on them, if they so desired.

There were no opponents.

REPRESENTATIVE NEUMAN asked if a committee like this would call on experts from outside of the state.

REPRESENTATIVE NORDTVEDT replied to some degree and he would see them in part getting some independent judgments on whether Montana is handling its $1.4 million properly. He said more importantly what they need to do is start an educational process that is ongoing and that is on top of the management of the state's assets.

REPRESENATIVE VINCENT commented that the six points in regard to what you want addressed in such a study are almost all inclusive and he wondered if Representative Nordtvedt thought that this was within the scope and capabilites for an interim committee to address adequately.

REPRESENTATIVE NORDTVEDT answered that he could go over this and prioritize the things that seemed too broad.

REPRESENTATIVE VINCENT said that he wondered if we might consider prioritization and this might give the committee a sense of direction if they could not adequately handle all of them.

REPRESENTATIVE NORDTVEDT gave his closing remarks and offered a letter from JAMES HOWETH, Investment Officer of the Board of Investments. (See Exhibit E.)

The hearing on this bill closed.

<u>HOUSE BILL 371</u>

REPRESENTATIVE KEMMIS stated that this was proposed by the Governor's Committee on Development and Finance which met to implement legislation concerning I-95 and he said that this bill goes beyond that to other proposals for in-state investment in Montana. He testified that this is one of four bills that came out of the Governor's committee, all four are important parts of a package and that no one should be taken as standing on its own or addressing the entire problem.

SENATOR TOWE, co-sponsor of the bill, exclaimed that this is one of the most exciting bills that will come before the committee and involves a large amount of money. He further expanded on the merits of the bill.

TERRY MURPHY, representing the Montana Farmers Union, gave a statement in support of this bill.

SENATOR CRIPPEN, District 33, stated that he was an outspoken foe of I-95, but that he was a member of the Governor's committee and listened to a great deal of testimony that came from around the country and now feels that it is an exciting new way to provide funds to be used in Montana and invested in Montana.

MIKE FITZGERALD, representing the Montana Trade Commission, stated that he served on the committee that helped draft this legislation and said that this is one opportunity to do something about our economy from within.

JEFF KIRKLAND, representing Montana Credit Union League, testified that he served on the committee and he would like to suggest to the committee that they consider amending the bill and insert "and credit unions".

NANCY HARTE, the legislative coordinator for the Montana Democratic Party, presented testimony to the committee. (See Exhibit F.)

JIM MURRY, representing the Montana State AFL-CIO, offered testimony supporting this bill. (See Exhibit G.)

STEVE BROWN, representing the Montana Bankers, gave a statement in support of the four-bill package of "Build Montana" program.

PAUL CARUSO, President of the First Security Bank, felt that this bill would have impact as well as be an asset and he wondered why only 10 per cent.

DICK BOURKE, representing the Development Credit Corporation, stated he had been a member of the Governor's committee and offered testimony. (See Exhibit H.)

JIM MAYES, representing the Operating Engineers Local 400, testified in favor of this bill. (See Exhibit I.)

DON REED, representing the Montana Environmental Information Center, offered testimony in favor of this bill. (See Exhibit J and J-1.)

PAT WILSON, representing Montco Thermal Energy, was also on the Governor's committee and supported this bill.

GARY BUCHANAN, Director of the Department of Commerce, stated that he appointed the ad hoc committee on finance and he handed out the booklet "Investing in America" and alerted the committee members to pages 74 through 79 in regard to Montana. (See Exhibit K.) He also distributed a chart, which showed the distribution of in-state investments for the state of Colorado. (See Exhibit L.)

JIM HOWETH, representing the Board of Investments, handed out a statement submitted by Joseph B. Reber, Chairman of the Board of Investments, and commented that he would be there to answer any questions.

REPRESENTATIVE ASAY, District 50, stated that he wanted to address the needs of agriculture. He stated that this state needs a healthy farm economy and he explained that a new crop that takes a large investment and has a ready market would be the production of artichokes.

REPRESENTATIVE FABREGA, District 44, testified that he served on this committee and he served at his own expense. He stated that this bill should be a breath of fresh air for the Board of Investments.

REPRESENTATIVE NORDTVEDT, District 77, said that he was 6/14s opposed to this bill and he arrived at this figure by dividing the retirement funds by the total funds that they have at their disposal, and he explained this statement. He felt that the bill should be amended to take pension funds out of it and he said that the goal for pension funds should be to have the highest return with safety.

There were no further opponents.

REPRESENTATIVE FAGG questioned if they have addressed high-risk loans and venture capital.

SENATOR TOWE answered yes, they are addressing venture capital; yes, they are addressing umbrella bonding; and they are addressing the rate of interest also, but not in this bill but in HB 100.

REPRESENTATIVE FAGG wanted to know what exactly does this bill do and MR BOURKE replied that it would give flexibility to the Board of Investments with permissive legislation to allow 10 per cent.

REPRESENTATIVE FAGG asked further questions and wondered if they were going to be allowed to see the whole package.

SENATOR TOWE responded and commented that they do not have control over the timing of the printing of the bills and that there are two more that are being drafted. He said that there are a whole number of reasons why they are not before them today but he would be very glad to go over them after this meeting. He also stated that with pension funds the more flexibility you give them, the more opportunity they have.

REPRESENTATIVE FAGG wondered if they really thought it would be a good idea to get into participation loans and questioned whether they really want Montana to be a partnership in private enterprise.

SENATOR TOWE replied that he would have to ask the Governor's office, but for him, he replied, "You bet!" He further explained that many couldn't affort 16 to 17 per cent interest but could at 12 per cent with participation.

REPRESENTATIVE HANSEN questioned about venture capital and SENATOR TOWE answered, explaining what venture capital is and that it is not going to be allowed in this bill.

REPRESENTATIVE RAMIREZ questioned what is HB 100 and how it related to this.

SENATOR TOWE explained that it is generally the I-95 implementation bill, but it is only limited to one-half of I-95 and creates the in-state investment fund.

REPRESENTATIVE RAMIREZ posed a question to Senator Crippen asking whether or not there was capital available now for Montana business; he wondered if he was talking about the same kind of capital and that maybe he does not consider it high-risk and he asked if Mr. Crippen thought money should be put into the type of business that he was in.

SENATOR CRIPPEN stated that he was going to have to disagree with this assumption and that in talking to bankers where he has posed this question, they say that they can't do this now because of the restrictions they have; they need to have more flexibility with laws.

There was further exchange between REPRESENTATIVE RAMIREZ and SENATOR CRIPPEN.

REPRESENTATIVE FAGG wondered if they have defined prudent and said that most new businesses wouldn't fall under the term prudent.

REPRESENTATIVE VINCENT stated that if you looked at some investments that might not be prudent, Xerox might be an example.

SENATOR TOWE commented that this would be a key item and explained how a prudent man was defined.

REPRESENTATIVE RAMIREZ wondered how the unemployment rate in the state of Colorado compared to the state of Montana.

MR. BOURKE said that he was only guessing, but he thought it was slightly below ours, it has been traditionally lower than ours and ours is one of the lowest in the nation.

There were further comments from the members of the committee.

REPRESENTATIVE MARKS asked some questions concerning CDs, agriculture and small business.

There were no further questions and REPRESENTATIVE KEMMIS made some closing statements.

EXECUTIVE SESSION

HOUSE JOINT RESOLUTION 11

REPRESENTATIVE HARPER moved that the bill be amended on page 3, line 11 by adding, "Be it further resolved that a copy of this resolution be sent to the Governor of the state of Montana, the President of the Atlantic Richfield Corporation, the President of the Anaconda Company, the Board of Directors of the Atlantic Richfield Corporation and all others whom it may concern."

There was some questions and the motion carried unanimously. There was further discussion on this matter and REPRESENTATIVE FABREGA moved that they defer their action and work on the language for this amendment. The motion carried unanimously.

THE HIRING OF AN ECONOMIST

REPRESENTATIVE HARPER moved that the committee hire a consultant and request that the Speaker enter into a contract with him.

REPRESENTATIVE FABREGA emphasized that he wanted it to be clearly understood that they are hiring a consultant who will present economic theory and not economic philosophy.

There was some further discussion and comments.

A vote was taken and all members voted "aye" with the exception of REPRESENTATIVE RAMIREZ and REPRESENTATIVE VINGER.

REPRESENTATIVE RAMIREZ informed the committee that both he and REPRESENTATIVE MARKS tried to get other candidates to interview, but they did not have very much of a selection and did not have enough time.

There was considerable discussion and REPRESENTATIVE VINCENT called for a show of hands between the two candidates. There were six votes for MR. FINNIE and seven for MR. PERES.

There being no further business, the meeting adjourned at 10:17 p.m.

John Vincent
REPRESENTATIVE VINCENT

Alice Omang
ALICE OMANG, SECRETARY

VISITOR'S REGISTER

HOUSE Econ Devel. COMMITTEE

BILL 371 DATE 2-1-83

SPONSOR Kemmis

NAME	RESIDENCE	REPRESENTING	SUPPORT	OPPOSE
Nancy J Harte	Helena	Mt. Democratic Party	X	
Jeff Kirkland	Helena	MT. Credit Unions League	✓	
Steve Brown	Helena	Mont. Independ. Bankers	✓	
Pat Wilson	Blgs	Montana Thermal Energy	✓	
Dick Bourke	Helena	DGV. Credit Corp	✓	
Rod Young	Helena	Board of Invest		
Jim Howeth	"	" "		
[illegible]	"	1st Sec. Bank	✓	
Don Reed	"	MEIC	✓	
J H Boles	"	Montana Chamber	✓	
Jim Mays	Helena	Local 400 IUOE	✓	
Terry Murphy	Gt. Falls	Mont. Farmers Union	✓	
[illegible]	Helena	Mt. Trade Commission	✓	
[illegible]	"	SD 33 Blgs	✓	
Jim Murry	Helena	Mont. AFL-CIO	✓	
[illegible]	Helena	Clergy and Local Farmers	✓	
Bob Ream	Msla	HD 93	✓	
[illegible]	Helena	MSCA	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

FORM CS-33

VISITOR'S REGISTER

HOUSE Econ. Development COMMITTEE

BILL HJR 11 DATE 2-1-83

SPONSOR Harrington et al.

NAME	RESIDENCE	REPRESENTING	SUP-PORT	OP-POSE
Mary J. Hunt	Helena	Mt. Democratic Party	X	
Rep Nancy Keenan	Anaconda	Dist # 89	✓	
Paul J. Caruso	Helena,	1st Sec. Bank	✓	
Gary Buchanan	Helena	Mont Dept. of Commerce		
Judy Jacobson	Butte	Sen Dist 42	✓	
Pam Campbell	205 S. Crystal Butte		✓	
[illegible]	Helena	DOC	✓	
Pat Wilson	Blgs	Montco/Thermal Energy		
Tom Ryan	Helena	M. Sen Citizens	✓	
Arlyn Plowman	Bozeman	Cement Workers # 939	X	
Red Menahan	Anaconda	Dist # 90	✓	
Susan Cottingham	Helena	MEIC	✓	
J H Bales	Helena	Montana Chamber	—	
Larry Stimatz	Butte	Senator Dist 43	✓	
Jim Murry	Helena	Mont. AFL-CIO	✓	
Chester Kinney	Helena	Claypool Local	✓	
Bob Reaw	Msla	H. District 93	✓	
Renee Brewer	Helena	MSPA	✓	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

WHEN TESTIFYING PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

FORM CS-33

HOUSE JOINT RESOLUTION NO. 11

INTRODUCED BY Harrington, Connelly, Lynch, Menahan, Dave Brown, Keenan, McBride, Jacobson, J. Brown, Daniels, Van Valkenburg, Brand, Kadas, Bachini, Peck, Farris, Nilson, Schultz

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REAFFIRMING THE STATE'S COMMITMENT TO ECONOMIC DEVELOPMENT CONSISTENT WITH RESPONSIBLE STEWARDSHIP AND ACKNOWLEDGING THE RESPONSIBILITY OF CORPORATIONS AND INDIVIDUALS TO REDUCE THE IMPACT OF CESSATION OR SUSPENSION OF INDUSTRIAL ACTIVITY.

WHEREAS, the State of Montana is committed to economic development consistent with responsible stewardship; and

WHEREAS, the commitment to economic development is exhibited in many forms, including tax laws, business attraction efforts, and initiatives enacted by the voters of the state; and

WHEREAS, in addition to and as a complement to the commitment to economic development, the State of Montana expects that corporations doing business in Montana will recognize that the elements of modern society are bound together in an interdependent system in which the prosperity of the corporation is complemented by the employees who contribute the human factors in the formula for success, and that both employer and worker, in association with other residents, form the community that shares and participates

in the corporation's growth and that assumes an identity reflective of the corporation; and

WHEREAS, cessation or suspension of operations by a corporation which has been central to a community's economic activity can cause inestimable damage by interrupting all economic, social, and governmental activities; and

WHEREAS, the earnings for a lifetime of conscientious and diligent effort by senior employees who have devoted their working careers to the service of a corporation are only partial compensation for their perseverance in tasks usually onerous and often hazardous.

NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

That the State of Montana and its elected officials acknowledge a responsibility to make continuing efforts to promote development, to provide jobs for Montanans, and to maintain a climate in Montana receptive to the healthy conduct of old and new businesses, consistent with responsible stewardship of resources and service to its citizens.

BE IT FURTHER RESOLVED, that a corporation that has enjoyed general financial good health over a long and fruitful history cannot disregard its responsibility for equitable treatment created by the agreement implied in the worker's commitment of his life to the corporation.

BE IT FURTHER RESOLVED, that cessation or suspension of operations by a corporation offers the corporation an opportunity to acknowledge the broadened concept of corporate responsibility of modern business.

BE IT FURTHER RESOLVED, that the State of Montana expects each of its citizens, whether individual or corporate, to accept and exemplify the responsibility to reduce the negative impact of cessation or suspension of industrial activity.

-End-

House BILL NO. 371

INTRODUCED BY Dennis Nathe, Fabrega, Crippen

A BILL FOR AN ACT ENTITLED: "AN ACT PERMITTING THE BOARD OF INVESTMENTS TO PRUDENTLY INVEST IN MONTANA BUSINESS ACTIVITIES UP TO 10 PERCENT OF ANY FUND; AMENDING SECTION 17-6-211, MCA."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 17-6-211, MCA, is amended to read:

"17-6-211. Permissible investments. (1) The following securities are permissible investments for all investment funds referred to in 17-6-203, except as indicated:

(a) any securities authorized to be pledged to secure deposits of public funds under 17-6-103;

(b) bonds, notes, debentures, equipment obligations, or any other kind of absolute obligation of any corporation organized and operating in any state of the United States or in Canada, if the obligations purchased are payable in United States dollars, or of any corporation in which the United States government is a voting shareholder by act of congress; provided that all investments under this subsection (b) must be rated by one nationally recognized rating agency among the top third of their quality categories, not applicable to defaulted bonds;

(c) commercial paper of prime quality, as defined by one nationally recognized rating agency, issued by any corporation organized and operating in any state of the United States, provided that:

(i) such securities mature in 270 days or less;

(ii) the issuing corporation or the parent company of a finance subsidiary issuing commercial paper, at the time of the last financial reporting period, had a ratio of current assets to current liabilities, including among current liabilities long-term debt maturing within 1 year, of at least 1 1/2 to 1 and had received net income averaging $1 million or more annually for the preceding 5 years; and

(iii) no investment may be made at any time under this subsection (c) which would cause the book value of such investments in any investment fund to exceed 10% of the book value of such fund or would cause the commercial paper of any one corporation to exceed 2% of the book value of such fund;

(d) bankers' acceptances guaranteed by any bank having its principal office in any state of the United States and having deposits in excess of $500 million;

(e) interest-bearing deposits in banks, building and loan associations, and savings and loan associations located in Montana, provided, however, that the board of investments shall require pledged securities as specified in 17-6-102

INTRODUCED BILL

HB371

(interest on said deposits shall not be less than the prevailing rate of interest being paid on deposits of private funds);

(f) unencumbered real property, first mortgages, and participations in first mortgages on unencumbered real property, provided that:

(i) no such mortgage or mortgage participation may be purchased unless:

(A) the principal amount of the loan secured by the mortgage or mortgage participation is 80% or less of the appraised value of the property;

(B) the principal amount of the loan secured by the mortgage or mortgage participation exceeds 80% of the appraised value of the property but the amount of the loan in excess of 80%, determined at the time the loan was made, is guaranteed or insured by a mortgage insurance company which the board of investments has determined to be a qualified private insurer;

(C) 25% or more of the loan or participation therein secured is guaranteed or insured in the event of default by the United States of America or an agency thereof; or

(D) the mortgagor has leased the mortgaged property to a person, firm, or corporation whose rental payments under the lease are guaranteed for the full term of the loan or participation therein by an agency of the United States; and

(ii) no investment shall be made at any time under subsection (1)(f) which would cause the book value of such investments in any investment fund to exceed 50% of the book value of such fund.; and

(g) any other investment in any business activity in the state, including activities that continue existing jobs or create new jobs in Montana, provided that:

(i) the investment is considered by the board to be prudent; and

(ii) investments which do not meet the requirements of subsections (1)(a) through (1)(f) may not, in the aggregate, exceed 10% of the fund from which each such investment is made.

(2) Investments from the pooled investment fund shall be restricted to fixed income securities described in subsections (1)(a) to (1)(e) above.

(3) Retirement funds and the fund provided for in 17-6-203, subsection (4) may be invested in preferred and common stocks of any corporation organized and operating in any state of the United States provided that:

(a) the corporation has assets of a value not less than $10 million;

(b) if the investment is preferred stock, the corporation's aggregate earnings available for payment of interest and preferred dividends, for a period of 5 consecutive years immediately before the date of investment, have been at least 1 1/2 times the aggregate of interest and preferred dividends required to be paid during this period;

(c) no investment may be made at any time under subsection (3) which would cause the book value of such investments in any retirement fund to exceed 50% of the book value of such fund or would cause the stock of one corporation to exceed 2% of the book value of such retirement fund;

(d) subsection (c) does not apply to funds provided for in 17-6-203(4).

(4) The board of investments shall endeavor to direct the state's investment business to those investment firms and/or banks which maintain offices in the state and thereby make contributions to the state economy. Further, due consideration shall be given to investments which will benefit the smaller communities in the state. The state's investment business will be directed to out-of-state firms only when there is a distinct economic advantage to the state of Montana."

-End-

UNITED CEMENT, LIME AND GYPSUM WORKERS
LOCAL UNION NO. 239 AFL-CIO
THREE FORKS, MONTANA

Arlyn Plowman
NAME OF WRITER
Box 804
ADDRESS
Three Forks, MT 59752
CITY, STATE AND ZIP

Testimony of Arlyn Plowman
Select Committee on Economic Develoment

My name is Arlyn Plowman, and I am an unemployed cement worker representing United Cement, Lime, Gypsum and Allied Workers, local 239, Three Forks.

We support the basic concept of HJR11. We support the concept of economic development. We also support the concept of stewardship.

Most of my fellow local union members are like myself, unemployed. We are the victims of layoffs at Ideal Cement in Trident. Unemployment insurance benefits have become our major source of income. But we want jobs, not unemployment insurance benefits.

We do not want just any job. We want decent jobs, with decent wages, decent working conditions and a decent environment for ourselves and our families.

Living in Montana is more than just an address. It is a way of life with clean air and clean water for fishing. It is well managed forests and prairies for hunting and recreation.

But sadly, and all too often, the good life in Montana has been damaged by large and often out of state corporations, who have shut down their operations.

Layoffs are devastating to the workers and their families. I really don't know what the state could have done to keep our cement plants open, because the national economy is so bad. When the construction industry is depressed, there simply won't be much demand for cement, no matter what the company or the state does.

However, there are some ways that the impact of such closures could be softened for the workers. One way is advance notice. Ideal Cement gave only 10 days notice of the layoff. I don't beleive for a second that the decision was made only 10 days in advance. Other major layoffs in Montana were made with that little notice or less.

Montana needs a law concerning plant closings and long term layoffs that will address the need for advance notice. Some sort of payment to the workers should also be part of the law, at least for companies which are still making a profit in their overall operation. Companies should

Exhibit A

share some part of the misery of the layoffs. And there ought to be some sort of money made available to the community to soften the impacts.

HJR11 provides none of these. It simply expresses frustration with the way closures and layoffs are happening now. We share that anger and frustration.

There isnot much we can do about the national economy which forces some companies into bankruptcy. But there ought to be something that we can do about still profitable companies which close.

For example, Martin Marietta has no cement plants in Montana, but it did close several plants in other states recently. Martin Marietta was involved in a takeover bid by Bendix. As a result of merger mania, the company was put in a precarious financial position, and so it is closing down its cement division.

Closures of that sort by large conglomerates, will not respond to a resolution calling them to be responsible. There must be specific laws that they must comply with.

We support HJR11 as a symbol of our desire that the state and corporations take responsibility. But we hope this committee won't consider that HJR11 goes far enough to address the problem in its entirety.

WITNESS STATEMENT

Name Arlyn Plowman

Committee On Econ. Dev.

Address Bozeman

Date 2-1-83

Representing Cement Wrkrs #239

Support X

Bill No. HJR 11

Oppose

Amend X

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. RESOLUTION NEEDS TEETH.
SEE WRITTEN STATEMENT

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

MONTANA STATE AFL-CIO
AFL CIO
APRIL 29 1956

Box 1176, Helena, Montana

JAMES W. MURRY
EXECUTIVE SECRETARY

ZIP CODE 59624
406/442-1708

TESTIMONY OF JIM MURRY, SUPPORTING HJR11, BEFORE THE SELECT COMMITTEE ON ECONOMIC DEVELOPMENT, FEBRUARY 1, 1983

I am Jim Murry, Executive Secretary of the Montana State AFL-CIO.

We support HJR11, as an expression of frustration with the plant closings that are happening in our state.

I suspect that the resolution arises out of sympathy for workers who have lost their jobs, and a desire for more jobs for Montanans. The resolution probably arises out of frustration over closings like the recent ARCO shutdown in Butte and Columbia Falls, which were made by a profitable company.

We support the feeling of frustration and the call for corporations to be responsible for their own actions, as well as for the state to be responsible for economic development.

Unfortunately, there is nothing in the resolution which gets specific about what is responsible. If there is going to be a call for voluntary action, at least there should be some indication of what actions are desirable, from the point of view of Montanans.

Our position is that both corporations and the state have some responsibilities in the wake of a decision to close down or lay off employees for a long period of time. But those responsibilities should be legal,not just moral ones.

What if a corporation doesn't meet its responsibilities for advance notice or severance pay for the workers, or some sort of assistance to the community for the negative impacts? It takes more that just a call for responsibility to get positive action from such corporations.

This resolution is seriously inadequate, but we support it because it expresses some of the frustrations with what is happening in our economy.

WITNESS STATEMENT

Name Nancy J. Harte

Address Box 802, Helena

Representing Mont. Democratic Party

~~Bill~~ No. 11
HJR

Select
Committee On Econ Devel.

Date 2-1-83

Support X

Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:
1.

See attached

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

E. 1 + 0

MONTANA DEMOCRATIC PARTY

February 1, 1983

TESTIMONY PRESENTED TO THE HOUSE SELECT COMMITTEE ON ECONOMIC DEVELOPMENT IN SUPPORT OF HOUSE JOINT RESOLUTION 11, TO REAFFIRM THE STATE'S COMMITMENT TO ECONOMIC DEVELOPMENT AND ACKNOWLEDGE THE RESPONSIBILITY OF CORPORATIONS AND INDIVIDUALS.

Mr. Chairman and members of the committee, for the record my name is Nancy Harte, legislative coordinator for the Montana Democratic Party. The Democratic Party supports this resolution.

HJR 11 calls for corporations and individuals to be aware of their responsibilities when businesses shut down or suspend operations. It's really the least we can ask of businesses in these times of economic hardship.

Montanans are not especially surprised when a large business shuts down; it has happened throughout Montana's history as part of the state's boom-and-bust economy. But while workers are no longer surprised, they are still hurt when their jobs disappear with little or no warning.

This resolution simply asks businesses to be aware of those people who are dependent on them for their livelihood. Montana workers have been devastated in recent years by layoffs and closures in the copper, timber and aluminum processing industries. The effects of these closures don't disappear as quickly as the jobs did. We ask that you that you give a "do pass" recommendation on HJR 11 to encourage businesses to act responsibly.

Montana Democratic Central Committee • Steamboat Block, Room 303 • P.O. Box 802 • Helena, MT 59624 • (406) 442-9520

State Funds

PERS	$ 304 million	10% common stock
TRS	233	
Other ret.	40	
Trust & Legacy	$ 133	long term fixed interest investments
Coal Trust	117	
Ed. Trust	44	
Resource Ind. Trust	28	
School Int. & Inc.	17	
Univ.	13	
Treasury Fund	285	short term fixed interest inv.
Long Range B.P	39	
L.R.B.P.S.F.	9	
Workers Comp	62	
Soc. Sec.	3	
Other	56	

Total $ 1,383 million

DEPARTMENT OF ADMINISTRATION
BOARD OF INVESTMENTS

TED SCHWINDEN, GOVERNOR — CAPITOL STATION

STATE OF MONTANA

(406) 449-2656 — HELENA, MONTANA 59620

January 27, 1983

Senator Ken Nordtvedt
Capitol Station
Helena, MT 59620

Dear Senator Nordtvedt:

The Board passed a resolution supporting your efforts to amend the constitution to allow the investment of public funds in equities at its January 21, 1983 meeting.

Sincerely,

James R. Howeth
Investment Officer

JRH/ns

WITNESS STATEMENT

Name Nancy J. Harte

Address Box 802, Helena

Representing Mont. Democratic Party

Bill No. 371

Select Committee On Econ Devel

Date 2-1-83

Support X

Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. see attached

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

Exhibit F

MONTANA DEMOCRATIC PARTY

February 1, 1983

TESTIMONY PRESENTED TO THE HOUSE SELECT COMMITTEE ON ECONOMIC DEVELOPMENT IN SUPPORT OF HOUSE BILL 371, TO PERMIT THE BOARD OF INVESTMENT TO PRUDENTLY INVEST IN MONTANA BUSINESS UP TO 10 PERCENT OF ANY FUND.

Mr. Chairman and members of the committee, for the record my name is Nancy Harte, legislative coordinator for the Montana Democratic Party.

House Bill 371 is one of a number of bills that are being introduced this session to encourage economic development in Montana. It is an outgrowth of Initiative 95, which was overwhelmingly passed by Montana voters last November, that directs the state to invest in Montana businesses to help Montana's economy. This bill would allow the Board of Investments to invest up to 10 percent of any fund in Montana businesses.

The Board of Investments still has the obligation to make prudent investments; this bill would not change that. But it does allow the Board some flexibility in where investments are made, so Montana businesses can benefit from state investments.

Montana businesses are having a rough time in these poor economic times, and the Democratic Party supports this bill to give them the needed help to keep open and surviving, and thereby to keep Montana workers employed as well.

Montana Democratic Central Committee • Steamboat Block, Room 303 • P.O. Box 802 • Helena, MT 59624 • (406) 442-9520

Exhibit F-1

Box 1176, Helena, Montana
JAMES W. MURRY
EXECUTIVE SECRETARY
ZIP CODE 59624
406/442-1708

TESTIMONY OF JIM MURRY, SUPPORTING HOUSE BILL 371, BEFORE THE SELECT COMMITTEE ON ECONOMIC DEVELOPMENT, FEBRUARY 1, 1983

I am Jim Murry, representing the Montana State AFL-CIO.

We support House Bill 371. This bill basically modifies the prudent investor rule to allow the Board of Investments to invest up to 10% of the investment funds mentioned in 17-6-203, which include all the education trust monies; the retirement funds of highway patrol; public employees; game wardens; teachers; the workers' compensation fund; the permanent coal taxt trust fund and other lesser funds administered by the board.

Montana law has been very strict in its requirements of prudence for the Board of Investments, and rightly so. Each of the funds is important, and should be managed to the best of the ability of the board. The public needs to have some strings attached to the management of those funds, so that safety and return to the fund are maximized.

However, the permissible investments in the current law are so strict that only a handful of companies have received Montana investment. The Board has apparently put some money into the housing market in Montana already, however.

Under House Bill 371, the list of permissible investments would be expanded to include any investment in Montana business activity which would continue existing jobs or create new jobs. The catch is that the Board must consider the investment to be prudent, so that money is not being poured into a company which is going to fail anyway, and all such investments, which would not otherwise qualify as a permissible investment, shall not make up more than 10% of the individual funds administered by the

Board. The bill does not require investments in Montana, as I understand it, it simply allows them.

This bill grows out of the discussion surrounding Initiative 95, which proposed to invest 25% of new coal tax trust fund money in Montana.

The Montana State AFL-CIO supported I-95, as did the overwhelming majority of the Montana voters. In the long series of meetings surrounding I-95, organized by the governor and the Department of Commerce, consultant Belden Daniels recommended several times that 10% of investments in-state was a reasonable and prudent number. Colorado has invested 20% in-state and has seen good success.

This bill grew out of those meetings, as shown by the four sponsors of the bill, all of whom were part of the governor's economic development committee.

I-95 was important as a first step. This bill is far more important than the initiative, because it involves much more money. The Department of Commerce estimates that the I-95 money to be invested in Montana will amount to only $13 million for the first year, and $16.5 million the second year. But 10% of the public funds invested by the Board of Investments and covered under this section of the law would amount to approximately $100 million.

Investing in Montana is good business. Montana businesses can provide a return to those funds, so that none of the funds are jeopardized. And the resulting economic activity provides more jobs, and therefore more tax revenue at the city, county and state level. So Montana investments bring in not only the interest which is earned, but other tax funds as well.

Testimony of Jim Murry House Bill 371 February 1, 1983

The Montana State AFL-CIO supports the wise creation of jobs in Montana, and House Bill 371 provides for that. A 1981 resolution brought by AFSCME, a public employee union, was approved by the Montana State AFL-CIO convention delegates. It calls for investing of union pension funds in ways which create jobs as well as make money for the pension funds.

This is a bill which is beneficial to everyone in Montana, management and labor, public and private employees, workers and retired people. We support House Bill 371.

DEVELOPMENT CREDIT CORPORATION OF MONTANA

P. O. BOX 916
HELENA, MONTANA 59601

TELEPHONE
442-3850

Testimony in Support of House Bill 371

Mr. Chairman and members of the committee:

My name is Dick Bourke and I am the Vice-President of the Development Credit Corporation of Montana. I was also a member of the Governor's Committee on Development Finance. As you may know, this committee assisted in developing this bill, and endorse it.

The Development Credit Corporation is a private for-profit business development corporation chartered under Montana state law. We have an existing capitalization of about $250,000, and are the only organized financial institution in Montana capable of providing risk and equity capital to worthy Montana businesses.

We wholeheartedly support the passage of House Bill 371 because this simple amendment to the permissable list of state investments allows the Board of Investments the flexibility to invest up to ten percent of each fund in Montana businesses, where deemed prudent. In our opinion this could provide a sorely needed source of long-term capital to investment and development corporations like ours.

We are in the business of providing risk and equity capital. In simple terms, this is capital which is not available from conventional financial institutions, due to either size or term requirements, level of risk or sufficiency of equity. For example, let's assume a business is being started which needs $500,000. The local bank may lend up to $250,000, but the owners only have $50,000 in cash. The $200,000 gap in financing may be filled by what I refer to as risk or equity capital. Types of financings which fall in this category include subordinate or convertible debt, usually of a longer term nature, purchase of preferred or common stock in the business, or purchase and leaseback of real estate and equipment.

Exhibit H

There has been little, if any, institutional capacity to supply this kind of capital in Montana. In 1981, only four percent of the venture capital investments made nationally were made in the entire eight state Rocky Mountain region. The national venture capital industry simply grew up where the money and deals existed, namely the east and west coasts, and Minneapolis area. Our remoteness from these areas, and perceived lack of high technology and high growth businesses has kept this source of funds from being made available to our business sector.

What does this have to do with HB 371? In order for us to fill this real capital gap in Montana and to make risk and equity financings, we need access to long-term funds, ideally with a fixed rate and terms similar to those available to SBICs, through the purchase of SBA debentures. This bill would, for example, allow the Board of Investments to purchase long-term debentures issued by our company, if these debentures were considered to be a prudent investment.

Three important points must be remembered. First, out-of-state venture capitalists are not generally interested in Montana, for reasons mentioned above. Second, we must develop an in-state private sector institutional capability to supply risk and equity financing tailored to our unique economic environment. Third, in order for our company to supply this capital, we need a large equity capital base, and access to long-term funds at rates similar to those available to venture capitalists elsewhere. This bill would allow the Board of Investments the flexibility to make these funds available to private sector corporations such as ours, and I urge that you give it a do pass recommendation.

International Union of Operating Engineers

LOCAL 400 Affiliated with AFL-CIO **Montana**

JOHN SLATTERY
President

D. F. "DAVE" JOHNSTON
Vice President

LOUIS LAYMAN
Treasurer

RALPH REID
Rec. Corres. Secretary

BILL BURLINGAME
Business Manager &
Financial Secretary

HEADQUARTERS
2737 Airport Road
Helena, Montana 59601
Telephone: (406) 442-9597

TESTIMONY OF JIM MAYES, REPRESENTING OPERATING ENGINEERS LOCAL 400, ON HOUSE BILL 371, BEFORE THE HOUSE ECONOMIC DEVELOPMENT COMMITTEE

I AM JIM MAYES, REPRESENTATIVE FOR THE OPERATING ENGINEERS LOCAL 400, MONTANA'S LARGEST LOCAL UNION.

IN THE CONSTRUCTION BUSINESS, THE DEPRESSION HAS HIT. UNEMPLOYMENT IS NOT 9.6% AS IT IS IN THE REST OF MONTANA INDUSTRIES. WE HAVE AREAS OF 50-60% UNEMPLOYMENT.

WE HAVE HEARD ECONOMIC DEVELOPMENT EXPERTS LIKE BELDEN DANIELS TELL US THAT THE STATE OF MONTANA CAN'T REALLY CONTROL OUR OWN ECONOMY. WHAT HAPPENS IN THE REST OF THE NATION IS MORE IMPORTANT THAN ANYTHING THE STATE CAN DO. DANIELS SAID THAT A STATE COULDN'T CHANGE MORE THAN ABOUT 10% OF ITS OWN ECONOMIC ACTIVITY. BUT AT THIS POINT, A 10% INCREASE WOULD LOOK VERY GOOD.

HOUSE BILL 371 INVESTS MONTANA MONEY IN MONTANA. OR RATHER, IT ALLOWS THE BOARD OF INVESTMENTS TO INVEST UP TO 10% OF THE MONEY IT CONTROLS IN MONTANA BUSINESSES. I WOULD RATHER SEE A MUCH HIGHER FIGURE INVESTED IN MONTANA. WHY SHOULD WE BE CREATING JOBS IN OTHER PARTS OF THE COUNTRY WITH MONTANA MONEY, WHEN WE NEED IT HERE? BUT 10% IS A GOOD PLACE TO START, TO SHOW IT CAN BE DONE WITHOUT UNUSUAL RISK FOR THE FUNDS.

EVERYONE IS INTERESTED IN JOBS. AND HOUSE BILL 371 IS ONE OF THE BEST WAYS MONTANA CAN AFFECT ITS OWN JOBS, GIVEN THE NATIONAL RECESSION WE ARE IN. IT WILL

TESTIMONY OF JIM MAYES
HOUSE BILL 371

CREATE OR SAVE JOBS, AND NOT COST THE TAXPAYERS ANYTHING OR REQUIRE ANY NEW PROGRAMS. WHAT COULD BE BETTER? I ASK YOU TO SUPPORT HOUSE BILL 371.

HB 371

Presented to the House Select Committee on Economic Development
By the Montana Environmental Information Center

February 1, 1983

HB 371 is the sleeper among all economic development legislation facing this session of the legislature. Most attention--both public and legislative--has been directed towards I-95 and its implementation. But in terms of sheer dollars invested within the state, the I-95 sums pale in comparison to ten percent of the overall state's portfolio.

This type of program has proven successful in other states. The two prime regional examples are the Wyoming Retirement Fund and the Colorado Pension Fund. These are two examples of Western states using their own investment clout to develop their states from within.

HB 371 specifically maintains the requirement that the Board of Investments consider the prudent nature of the investments undertaken or participated in by the state. The programs in Wyoming and Colorado demonstrate that prudent investments can be made within rural Western states. Many potential investments in the state of Montana can be made more secure following the Wyoming model of purchasing portions of government guaranteed loans such as Small Business Administration and Government National Mortgage Association programs.

The Wyoming model also involves existing financial institutions to originate and service the loans. This maximizes the involvement of all the states financial expertise. Over the period from November 1981 to mid-April 1982, the Wyoming Retirement System in some 37 in-state investments in guaranteed loans. They ranged in size from $69,814 for a pizza restraunt in Sheridan to $497,903 in a medical center for women in Gillette.

More could be said about both the Wyoming and Colorado investment programs. The important point here is that they are working today. Other states are investing major portions of their portfolios within their own borders without jepordizing the security of their investments. To argue that Montana is not capable of doing the same thing, is to insult the quality of businesses in Montana.

Most importantly, HB 371 represents the pulling together of many all to often divergent parties in Montana. It is sad that our economic condition had to reach such depths before such important moves were made.

WITNESS STATEMENT

Name DON REED

Address HELENA

Representing MEIC

Bill No. 371

Committee On ECON. DEV.

Date 2/1/83

Support ✓

Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Larger $ figures than I-95.

2. Can be invested prudently; without jepordizing security of ~~the~~ funds.

3. Can involve existing financial institutions

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

Exhibit I

BUILDING
PARTNERSHIPS

The President's
Task Force on
Private Sector
Initiatives

INVESTING IN AMERICA

INITIATIVES FOR COMMUNITY AND ECONOMIC DEVELOPMENT

5 PENSION FUNDS

By The Employee Benefit Research Institute

Pension assets have become one of the fastest growing and most rapidly changing sources of investment funds in the United States. By the end of 1981, private plan assets reached at least $520 billion, compared to a 1950 level of only $12 billion. Public plans held another $221 billion. Pension funds accounted for 12.3 percent of all outstanding financial assets in the nation.

Because the preservation of capital has always been the primary concern of pension fund managers, pension investing has tilted overwhelmingly in the past toward such low risk investments as U.S. government securities and high quality corporate stocks and bonds.

In recent years, due to the growth of pension assets and the shortage of financing from traditional sources, many voices have begun to advocate new, more diversified uses for pension assets. At the far end of the spectrum, furthest from the traditional investment approaches, are those who advocate investing pension funds for the expressed purpose of bettering society, with return and risk being secondary considerations. This position, however, has not found widespread support.

More common are the voices calling for diversification of pension investments to serve functions beyond just the accumulation of assets. There has been an increase in the use of pension assets as a source of funds for mortgages or to buy real estate outright, or even as venture capital to finance promising new high technology enterprises. Some states are trying to encourage their public pension funds to invest more of their assets in-state. In some cases political motives may influence individual investment decisions: a union pension fund manager might be asked to invest only in corporations employing union labor, for example. So long as such investments pay competitive rates of return, pension fund managers are becoming increasingly more willing to consider them.

But rates of return are not the only issue. The new directions in pension fund investing are raising difficult questions about the ownership and control of assets as well as the suitability of alternative forms of investment. The public and private debates that will resolve these and other issues are only just beginning.

One important distinction between pension funds and other investment sources should be made at the outset. Pension funds, unlike banks or insurance companies, are not competing for investment dollars--a competition that has led to many of the investment innovations catalogued in this book. Pension funds are not innovators, although they are increasingly beginning to move into new investment areas that others have proven to be profitable. Instead, pension funds have a different purpose: the payment of retirement benefits. Between the time they receive contributions and pay out benefits, pension managers seek investments that will preserve capital while, hopefully, producing an attractive return.

Those seeking to entice pension assets into other areas should consider two other distinctions. First, pension assets cannot be viewed monolithically. There is enormous variation among private and public plans and in the ways different kinds of pension funds are invested. Second, pension funds have almost never knowingly accepted reduced rates of return in order to support social needs in the manner of other investments profiled in this book. This pattern is unlikely to change. Pension funds can be expected to move toward innovative investments and to seek out new ways to assist plan participants, but without jeopardizing the ultimate payment of benefits.

Pensions: A Perspective

Although pension plans are more than a hundred years old, the huge growth in pension assets is a relatively new phenomenon. New York City established the nation's first public pension plan in 1850; in 1875 the American Express Company established the first private plan, and Metropolitan Life Insurance Company sold the first group plan in 1921. Over the next 50 years pension programs were established by many large employers, including banks, utilities, mining and petroleum companies and manufacturers. In 1929, there were 397 private plans in operation. By 1981, there were more than 640,000.

Employers created pension plans for many reasons: to stabilize wages, reward service, retain employees, to keep up with competing businesses, to enhance productivity, and to provide tax benefits to workers. By 1982 pensions had become a standard feature for most public and private employers: over two-thirds of all private sector full-time employees and more than 92 percent of full-time public workers were covered by pension plans.

Programs that provide income upon retirement are divided into three subgroups:

+ **defined benefit employer pensions** - those that promise a given benefit upon retirement with the contribution fluctuating and the employer bearing the risk of poor investment returns;

+ **defined contribution employer pensions** - those that promise a given contribution with the ultimate benefit fluctuating and the employee bearing the risk of poor investment returns; and

+ **individual pensions** - generally defined contribution in approach with the employee making some of the contributions and bearing all of the risk of poor investment returns.

There were approximately 485,000 private defined contribution plans at the end of 1981, compared to 158,000 private defined benefit plans. Some 10 million Individual Retirement Accounts and 500,000 KEOGH plans were also operating.

Standards for Pension Investing

The Employee Retirement Income Security Act of 1974 (ERISA) established fiduciary standards for the investment of pension assets by private plan trustees, commonly known as the "prudent man" constraints. They require trustees to manage pension funds solely in the interest of the participants and beneficiaries, for the exclusive purpose of providing benefits and defraying reasonable expenses of administering the plan. Investments are to be made "with the care, skill, prudence and diligence under circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use." They should be diversified "to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so."

ERISA presently applies only to private sector pensions. Federal legislative proposals to extend ERISA type provisions to public employer pensions have been regularly introduced in Congress since 1975, but are opposed by public interest groups representing state and local governments and have never been approved.

When ERISA was first enacted, some trustees feared this standard meant that only pension investing based on the immediate net return on the individual investment would qualify under the law. But subsequent interpretation of the Act has indicated that investments taking into account other considerations could qualify. The history of trust law has formed the foundation for this standard. Congress by incorporating diversification requirements into ERISA, gave trustees the ability to base investment decisions on total portfolio return. Modern portfolio management techniques have enhanced trustees' investment alternatives. Indeed, while the guidelines are considered strict, experts feel trustees do have the latitude to include other considerations after they are satisfied that net return on alternative investments would be equal. This seems to be the position of government pension regulators, as exhibited by recent Department of Labor regulations and Congressional hearings.

It is not uncommon for public funds to adhere to the prudent man guidelines, even though they are not mandated to do so by federal legislation. Many states and localities do have specific legal guidelines that limit the scope of investment, and customs vary widely. In 1976, for example, most large state and local plans statutorially limited stocks to less than 35 percent of their portfolios, and 10 percent could not invest in stocks at all. (Recently, a number of plans have reacted to the poor bond-market conditions by relaxing or lifting restrictions on equity investing.)

Other common restrictions include limits on investments in one company, in one industry, or in mortgages. Some plans have minimum requirements for the investment quality of securities or ceilings on direct ownership of real estate. Some plans also mandate minimum company size for pension fund investments, limit the percentage of assets that can be held in cash reserve, or set minimum rates of return to be earned on investments.

The Investment of Pension-Fund Assets

Because pension funds--both private and public sector--invest primarily in private sector assets, they both influence and are influenced by the performance of financial markets. The long-term nature of pension benefit commitments, for example, has contributed to the stability of capital markets by emphasizing long-term investments. The increased importance of pension funds, in fact, has tended to elevate overall standards of investment performance; their unique requirements have stimulated the development of many new investment vehicles.

The growing importance of pension funds also can be measured in terms of their role as suppliers of funds. In 1950, pension assets accounted for 3.0 percent of all outstanding funds advanced to credit markets. By 1973, pension funds had tripled as a source of credit, and by the end of 1981, pension funds held one of every six dollars of outstanding funds. Total pension assets that year reached $742.3 billion. The value of private pension plans assets in current dollars has grown more rapidly during the late 1970s than in any other period over the last 30 years. The increasingly gargantuan size of pension funds, and their increasing share of all credit, has inevitably thrust the funds—and their managers and investment practices—into the public spotlight, especially in view of predictions that their share of available U.S. capital will continue to increase sharply. One estimate of the early '80s, for instance, was that total pension assets could reach a staggering $4 trillion by 1995. Even if exaggerated, such estimates underscore the geometric growth of the funds and their importance in a troubled national economy.

Private plans have invested heavily in corporate stocks and bonds, holding over 12 percent of all corporate equities and nearly a quarter of corporate bonds outstanding. Public plans held 2.7 percent of corporate equities in 1980, 18.8 percent of corporate bonds, 8 percent of U.S. Government Securities, and 0.8 percent of mortgages.

Private pension plan investment patterns vary according to many factors—who manages the fund, for example, the plan type, sponsorship and size. Private plans managed by trustees (as the vast majority are) held approximately 80 percent of their assets in corporate equities and bonds in 1981, while those managed by insurance companies tended to have a somewhat higher proportion of their assets in mortgages and real property. Multi-employer plans invest mostly in bonds, while the single-employer plans are dominated by stocks. Small plans (with fewer than 100 participants) hold far more of their assets in cash, 15.6 percent, compared to only 1.6 percent for plans with 5000 or more participants. Some 17 percent of the assets of plans with 100 to 499 participants are in stocks, less than half the amount for plans with 10,000 or more participants.

Until 1960, over half of state and local pension assets were in U.S. Treasury securities and municipal bonds. Between 1960 and 1975, public plans doubled their investments in corporate stocks and bonds to over 80 percent of total assets, but switched back to Treasury securities again after 1975. In the 1950's, over one-quarter of all assets were invested in municipal bonds; this decreased to just 1.8 percent in 1981.

Shifting Pension Assets Into Alternative Investments

Advocates of more imaginative uses of pension funds argue that conventional application of the prudent man rule and other pension rules written for different times and circumstances are imposing such a conservative standard that the availability of risk and innovative capital--the society's best guarantor of future economic prosperity—is being severely constrained. (In California, for example, supporters of broader pension fund use have noted that pension funds there could legally invest in such enterprises as Chrysler or the utility that owns the Three Mile Island nuclear plant. But the rules forbade them to assist such small, growing high technology firms as manufacturers of semiconductors, which seem far more likely to spur economic activity and reduce the state's welfare and unemployment costs.)

The very future of the American economy, it is sometimes suggested, depends on tapping some share of pension funds for economic development, affordable housing and job-producing small businesses. Yet the fact is that even if everyone endorsed the diversifying of pension assets into more alternative investments--and not everyone does--the realities of managing the assets for such purposes would still pose difficult questions. One is that the participants in a pension plan are seldom a united group. Retired workers may not have the same interests and investment desires as newly hired workers; minority workers, female workers, and white male workers may not have the same goals. Corporate management and union leadership may not agree on an investment strategy. Investment managers, the trustees, and the beneficiaries may approach investment decision and risk quite differently.

Indeed, each of the major groups affected by a pension plan has a unique perspective. Trustees charged with fiduciary responsibilities must respond to different pressures than members of a state legislature. The same is true for investment managers, who often are judged on fund performance rather than on regional economic development or the rate of technological breakthroughs that strategically placed pension investments might help to achieve. Corporate executives attempting to counter low cost foreign labor and skyrocketing energy costs by relocating their firms have a different perspective than union officials seeking to maintain jobs and prevent plant closings in the areas where (as they can point out) the wealth creating the pension assets was generated in the first instance.

Discussions of the consequences of a dramatic change in who controls plan assets have become increasingly frequent since the late 1970s. Yet even as such debates begin, work is already underway to identify investment options that will meet risk and return criteria and also help meet special needs.

Alternative Investment of Pension Funds: Housing

Perhaps the oldest example of alternative pension investing is the Hawaii Public Employees Retirement System home loan program. Since 1959, PERS has made mortgage loans to plan participants, lending money at favorable rates to low-income borrowers and at market rate to others; these loans constitute 20 percent of the plan's assets.

Today, several investment vehicles are being used increasingly by pension funds to assist housing. These include mortgage pass-through securities, such as those offered by the Government National Mortgage Association (Ginnie Mae), the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Corporation (Freddie Mac), as well as private companies (See Chapter 4).

The Massachusetts State Employees and Teachers Retirement System, for example, has purchased $19 million in mortgage pass-through securities which are rated AA by Standard and Poors and have a pass through rate of 13 3/8 percent. Issued by the MGIC Mortgage Marketing Corporation of Milwaukee, the securities consist of mortgages made in Massachusetts on single-family owner occupied residences, townhouses and condominiums, allowing the funds to be invested within the state while obtaining a high yield for the investment. In addition to this pass-through deal, the state pension funds also holds over $600 million in Ginnie-Mae pass-through securities.

Minnesota's State Board of Investment recently committed $60 million of its $4.5 billion pension fund to a moderate income housing program. The fund will take over a package of mortgages from the Minnesota Housing Finance Agency in 10 years, earning interest in the meantime. The money will finance construction of an estimated 1,100 to 1,400 new homes within the state for homebuyers with incomes of $23,000-$32,000.

The Maryland State Retirement System, together with a state savings and loan association, became the first investor and lender to use Fannie Mae mortgage-backed securities to finance new home loans. The state fund will purchase $20 million in securities, bearing interest rates of 13 percent for new home loans and 14 1/2 percent if backed by mortgages on existing homes.

Capital Market Innovations

The increasing role of pension funds as a source of capital has stimulated additional capital-market innovations as well. This has produced a number of trends:

A shift to investments in real property. One of the pioneers in public pension property investment is the Minnesota Teachers Retirement Fund, which began its property investment program over ten years ago. The fund buys real estate (half of it within the state) and makes long-term leases to corporations. Recently, many other pension funds have begun to purchase real property or participate in real estate investment pools put together by institutions. Such investments tend to retain their value during periods of inflation, but they may also prove fairly volatile.

Of the 200 largest private and public pension plans, 97 had $6.8 billion in real estate investments at the end of 1981, up from only 65 funds with $3.0 billion at the end of 1980.

One recent survey indicates that while new real estate equity investments have been evenly split between direct ownership and participation in investment pools since the start of the 1980s, in 1982 there was a marked shift to direct ownership with much of the impetus for the change coming from the public funds. By 1985, California's Public Employees Retirement System expects to have 5-10 percent of its assets in many types of equity real estate investments--a projected $2.5 billion.

Due particularly to statutory restrictions, many public funds do not invest in real estate pools. The private funds, however, have committed substantial assets. The largest pool, Prudential Insurance Company's $4 billion PRISA fund, has more than 300 pension fund participants, and owns a large collection of office buildings, shopping centers and warehouses across the country. Many pension fund managers have been attracted to pools like PRISA because of high returns on investments. The value of unit shares in PRISA, for example, rose 23.2 percent in 1980 and 16.2 percent in 1981.

A few private funds have made direct real estate investments. Dow Chemical's $1 billion fund, for example, has a 10-year convertible mortgage on an office building in downtown Houston. It can exercise the conversion option for up to 100 percent ownership before the expiration of the mortgage.

American Telephone and Telegraph's pension fund, the largest private fund in the U.S., recently purchased a 70 percent ownership share of a Washington, D.C. shopping mall for $48 million.

A shift to venture capital. An increasing number of plans have begun allocating a small portion of their total assets to support new ventures. While these investments carry high risk they have the potential of producing very high rates of return. This activity has taken the form of investing funds with a venture capital specialist, direct placements, and investing in government sponsored instruments which provide loans to new enterprises. (See venture capital chapter for additional details.)

Many public and private plans have, for several years, invested small amounts of their funds in the approximately 360 Small Business Investment Companies authorized by the federal government. Now many are expanding into other venture investments. Twenty-seven of the 200 largest funds made venture capital investments in 1981. These include: A T & T ($50 million), Grumman ($8 million), Chrysler ($17 million), Ohio Public Employees Retirement System ($2 million), Deere Co. ($10 million), TRW ($4.1 million), and Washington State Public Employees Retirement System ($6 million).

At least two funds in Minnesota, the Minnesota Employees Retirement Fund and the Control Data Corp. Fund, are joining a group of corporate investors in the Minnesota Seed Capital Fund, which is designed to provide initial funds for small hi-tech companies within the state. Each pension fund is planning to contribute approximately $500,000 to the $2.5 million seed capital fund. The investments in hi-tech companies range from $50,000 to $250,000; by autumn 1982 four small ventures had been provided financial assistance from the fund, generally under agreements providing some method of equity participation (See pp. 00).

A growing interest in locality investments. State and local plans are moving rapidly in the direction of investing funds at home. Since 1980 pensions in at least 14 states have announced plans to increase local investment. Most will be concentrated in local mortgage markets but some plans are earmarking funds for local business development.

The State of Wisconsin Investment Board has had a long history of giving preference to in-state investments. In 1932, the state legislature mandated the Board commit at least 70 percent of all trust fund assets within Wisconsin. While this statute was repealed in 1945, in 1965 the Investment Board's executive director indicated that the trustees would again target investments within the state. Although this stance was modified by successors, in-state investments are now considered on an equal basis with all other investments.

Alabama's fund formalized in 1977 a four-year old policy encouraging in-state investments so long as the yield and security are competitive with other available investment alternatives. In 1979, 47 percent of the plan's $1.6 billion was invested within Alabama through federal or state loan guarantee programs or direct private placements with corporations.

The Minnesota State Board of Investment in 1980 instituted a program to invest a portion of its $3 billion assets in certificates of deposit of banks and savings and loans within the state, thus channeling monies back to individual communities. The board initially placed $93 million in 328 financial institutions across the state in amounts of up to $500,000 for maturities of up to one year at competitive rates.

A group of state, county, and city pension funds in California recently invested about $930 million in commercial enterprises and housing within the state. Approximately $280 million was to be used to purchase targeted SBA loans, and the remaining $650 million invested in residential, industrial, and commercial real estate. Of this, $153 million in pension assets were to be invested in commercial and industrial real estate, while another $10 million was to be invested in a mortgage on a multi-family housing project. Another $300 million was designated for in-state targeted Freddie-Mac and Ginnie-Mae mortgages.

The $600 million Chicago Municipal Employee's Annuity and Benefit Fund will provide $44 million through 1984 for construction of a low-to-middle-income housing project. The FHA will guarantee permanent financing, since up to 20 percent of the 51-story apartment's units are exclusively for low-income residents.

A shift to short-term investments. With interest rates still at historical highs, many investors have turned to short-term securities such as Treasury bills, commercial paper, certificates of deposit, bankers' acceptances, and repurchase agreements. These securities are purchased directly from issuers or through funds that sell shares in a portfolio of short-term securities. Such a pattern may become cyclical: pension investors may shift out of short-term investment should interest rates decline to historical levels.

A shift to options and futures contracts. When common stock and long-term bonds display relatively poor performance, some investors buy and sell options and futures contracts as a way to augment the inflation-adjusted performance of the underlying security. The use of options and futures contracts is becoming more prevalent among pension funds.

Other Innovations:

While the majority of alternative pension investing has been generated by the public sector, a number of private plans, especially associated with unions, have been putting their pension assets to new uses. The AFL-CIO, for example, recently announced plans for a $500 million program to use pension funds for job creation in the construction industry. Pension assets will finance real estate projects across the country.

In Southern California, 19 unions formed a consortium last year to invest over $150 million drawn from their pension assets in 25 union construction projects within the state. Projects include residential housing, condominium and townhouse loans, office buildings, a hotel complex and a shopping center. In Oregon, eight building and construction pension funds, with approximately $300 million in assets, have joined together to form the Pacific Northwest Construction Finance Forum, which will invest in commercial and residential mortgages in the Pacific Northwest. The projects will create jobs for union workers. And in Florida, the Palm Coast Affirmative Investment Roundtable and the newer statewide Florida Affirmative Investment Roundtable are establishing programs to use pension funds to make market rate construction loans in union-constructed commercial, residential and industrial real estate projects.

State Pension Task Forces

Some states have started to reevaluate their pension fund investments through the use of special commissions. The Illinois Study Commission on Public Pension Investment Policies, for example, established in March 1981 to review the investment policies and practices of the five major state pension plans, with total assets of $4.5 billion, has recommended several steps to allow greater investment flexibility and help improve fund performance. In California, a similar group, The Public Investment Task Force, developed recommendations that would permit California's $30 billion public pension funds to earn competitive investment yields while simultaneously supporting the state's economy. Recommendations included: encouraging investment in home mortgages for participants; creating a state-based secondary market for in-state housing loans; easing statutory restrictions on state pension fund investment; and establishing a statewide Venture Capital Fund. Among other ideas put forth in connection with the California study was using pension funds for "homeownership coinvestment," with lower-income house buyers putting up less money in downpayment or monthly payments but being obliged to share with the fund future price gain on the property. To meet shortages in rental housing, it was suggested that pension funds offer lower-than-market interest rates, making possible lower rents, in return for a share of the apartment building's future price appreciation.

Other states, including Florida, Maryland, Michigan, and Massachusetts, have also been examining their public pension investment practices, looking to the fine balance between prudence and responsiveness to societal needs that will doubtless be the "name of the game" for U.S. pension funds for years to come.

The nation's many and varied public and private pension funds will undoubtedly be viewed by capital seekers as fertile ground for decades to come. And as this chapter illustrates, pensions are likely to continue to be responsive to innovative investment vehicles, including some that have as their goal social needs, beyond merely financial returns. But pension funds are unlikely to change their pattern of investing based on a competitive net Aeturn, adjusted for risk. The national debate over who controls the huge sources of capital represented by pension assets and who should benefit from their investment will continue. As it does, pension funds will continue to branch out in their investments, seeking additional ways to assist plan participants and beneficiaries without jeopardizing the ultimate payment of benefits.

COLORADO PUBLIC EMPLOYEE'S RETIREMENT ASSOCIATION

DISTRIBUTION OF INSTATE INVESTMENTS

1982

Commercial, Industrial Mortgages and building participants	57%
Corporate Investments Secured by Real Estate	20%
Real Estate	8%
Residential Mortgage	15%
	100% = $425,000,000

TOTAL PORTFOLIO	$ 3.1 billion
TOTAL INSTATE	$425,000,000

SOURCE: Norman Jaskol
Assistant Secretary
Colorado PERA

Exhibit K

STATEMENT BY:

JOSEPH B. REBER, CHAIRMAN

BOARD OF INVESTMENTS

IN SUPPORT OF HB 371

The people of Montana expressed a strong desire that a portion of the Coal Tax Trust Fund be invested in Montana. The same philosophy of instate investment should be applied to other state trust funds. In Fiscal Year 1982, we invested $81 million in Montana Mortgages and $39 million in Montana Certificates of Deposit. To significantly increase our investments of trust funds in Montana, we will need additional legal authority.

House Bill 371 has been endorsed by the Board of Investments as an appropriate way to give the board additional discretion in making instate investments in Montana businesses and industries. Under this bill and working through Montana banking institutions, the Board could make funds available to existing businesses that need long term capital. Under the prudent man rule, the funds could not be made available to new businesses or speculative enterprises, but the bill would help local banks help their established business and industrial customers.

Montana's small business economy needs this kind of support.

On behalf of the Montana Board of Investments, I urge this bill be given a do pass recommendation by your committee.

WITNESS STATEMENT

Name Jeff Kirkland — Committee On ____

Address 2842 Festival Road — Date 2-1-83

Representing Montana Credit Unions League — Support ✓

Bill No. HB 371 — Oppose ____

Amend ✓

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:
1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

WITNESS STATEMENT

Name Mike Fitzgerald

Address Suite 610 Power Bldg

Representing Mt. Trade Commission

Bill No. HB 371

Committee On Econ Dev

Date 1 Feb 83

Support ✓

Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

WITNESS STATEMENT

Name Jim Murry

Address Helena

Representing Mont. AFL-CIO

Bill No. HB 371

Committee On Select Comm

Date 2-1-83

Support X

Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

WITNESS STATEMENT

Select Com.
Econ. Dev.

Name Jim Murry

Committee On ~~HJR~~ H

Address Helena

Date 2-1-83

Representing Mont. AFL-CIO

Support X

Bill No. HJR-11

Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1.

2.

3.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

WITNESS STATEMENT

Name ~~Al~~ Rep N. Keenan

Committee On

Address 1421 W 3rd

Date 2.1.83

Representing Dist 89

Support ✓

Bill No. HJR 11

Oppose

Amend

AFTER TESTIFYING, PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

1. Testifying out of ardent support for victims of corporate cessation & other citizens in MT.

2. Dedicate their lives for corporation prosperity — corporations acknowledge a resp. to the people

3. Encourage climate of economic development but also a climate of corporate responsibility.

4.

Itemize the main argument or points of your testimony. This will assist the committee secretary with her minutes.

FORM CS-34
1-83

Proposed amendments to House Bills 371 and 100 to allow credit unions to participate in the types of economic development activities envisioned by the voters of the State and by the members of the Temporary Committee on Development Finance. These amendments are proposed by the Montana Credit Unions League.

PROPOSED AMENDMENT TO HOUSE BILL 371:

The amendment would include credit unions in the list of permissible investments for the Board of Investments. Currently banks, building and loan associations, and savings and loan associations located in Montana are listed in Section 17-6-211(e) as permissible investments. While the new language in HB 371--page 4, lines 10-13-- would probably allow the Board of Investments to invest in interest-bearing deposits in credit unions as "investments which do not meet the requirements of subsections (1)(a) through (1)(f)...," we see no reason for credit unions to be excluded from Section 17-6-211(e) and treated like second-class financial institutions.

PROPOSED AMENDMENT: page 2, line 23--strike "and" before "savings and loan associations"; insert ", and credit unions" following "savings and loan associations."

loan associations, ~~and~~ savings and loan associations, and credit unions located

Amendment to HJR 11

1. Page 1, line 11
Following: line 10
Insert: "WHEREAS, past legislatures were dominated by corporate interests, and failed to address the long term ramifications of natural resource extractive and processing industries in a manner which would have protected future generations from the adverse effects of "boom and bust" economic cycles; and"

2. Page 3, line 11.
Following: line 10
Insert: "BE IT FURTHER RESOLVED, that a copy of this resolution be sent to the governor of the State of Montana, the president of the Atlantic Richfield company, the president of the Anaconda company, the board of directors of the Atlantic Richfield company, and to all others whom it may concern."