

SELECT COMMITTEE ON ECONOMIC DEVELOPMENT

HOUSE OF REPRESENTATIVES

48TH LEGISLATURE

ATTENDANCE

DATE: Feb. 17, 1983

ROOM: Old Supreme Crt. Chambers

| | 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 THE SELECT
COMMITTEE ON ECONOMIC DEVELOPMENT

February 17, 1983

The seventh meeting of the Select Committee on Economic Development was called to order by Chairman John Vincent at 7:34 p.m. in the old Supreme Court Chambers in the Capitol Building, Helena, Montana on February 17, 1983.

Roll call was taken and all members were present.

CHAIRMAN VINCENT stated that it was important to limit the time on the five House Bill's to be heard that evening. He would like the bills to be heard in the following order: HB 733, HB 818, HB 832, HB 871 and HB 721.

HB 733 & HB 818

REPRESENTATIVE BENGTSON, Sponsor, explained this bill provides for umbrella bonding for municipal bonds and school bonds. She explained that she and Senator Towe got together when it was being discussed to use the umbrella bonding concept under I-95. They felt it was necessary to pool municipal bonds or school bonds. Many people were on the governor's temporary committee on Economic Development for I-95, and many areas were represented such as the business area, local government, brokerage houses and labor all supported this bill. She explained there is a limitation on the issues of the bonds that can be pooled, this limitation is \$150,000. The reason for this is to improve the marketing system for bonds and give bonds a higher rating. There is an argument regarding the problems in selling some of these bonds, this provides for an additional marketing system for these kinds of bonds. She summarized HB 818 as a bill that gives the Board of Examiners the authority to sell general obligation bonds. She asked Senator Towe to further explain these two bills.

SENATOR TOWE feels these bills are a part of I-95, because it is trying to help municipal and local construction and projects that involve financing by local governments generally through the sale of bonds. If we can get the interest rates down a bit, perhaps we can get the cities, local governments and school districts to do something and get this going so more people can be put back to work. He further explained the mechanics of HB 733, and asked the committee to look at the key language of Section 8, page 5 regarding the limitation of \$150,000. He stated this is critical because D. A. Davidson, who has been opposed to this kind of concept in the past and feel it's an interference with their own private activities, stated they would not object to those issues under \$150,000. He felt this is the compromise language. He also explained how the reserve fund is a key element in this bill. The way this is supposed to operate is as an umbrella bond proposal that the state can pool the bonds issued to a number of different municipalities, sell one bond issue and with the reserve fund are better guaranteed and should get a better interest rate.

SENATOR TOWE explained the mechanics of HB 818 to the committee.

PROPONENTS

DON JUDGE, Representing Montana State AFL-CIO, expressed support for HB 733 and HB 818. He noted this bill concerns not just the coal tax trust fund, but all funds administered by the Board of Investments. There is a maximum investment limit of \$10 million, according to page 5, line 10 of this bill. They feel this is somewhat low. See Exhibit A for further comments. He summarized by stating they urge the Committee to vote DO PASS on these two bills.

WAYNE BUCHANAN, Representing Montana School Boards Association, stated their support of HB 733 & HB 818. In the past it has been difficult to sell small issues in small schools and get a decent rating on the bonds, and he feels these bills will correct this.

JESSE LONG, Representing School Administrators of Montana, stated his members have been trying to get this type of legislation in place for the past several years. They fully support these two bills.

GARY BUCHANAN, Director of the Department of Commerce, stated they support the bill. He wanted to alert the committee that the Commerce Department should work with the committee on ways to coordinate this. He feels the bill on the general obligation reserve fund has promise, and with members from both parties they could come out with an over-all solution.

BILL VERWOLF, Representing Cities of Missoula, Billings and Helena, stated they participated in the development of this and feel this is not only an advantage for small towns but also for small SID's and isolated areas in large towns as well. They fully support this bill.

JIM GILLET, Legislative Auditor's Office, stated they would like to offer an amendment to HB 733 regarding the Insert: "by or at the direction of the legislative auditor. The actual costs of the audit shall be paid from the board's funds." He noted this was the same amendment proposed on HB 700.

CHAIRMAN VINCENT stated if there were no further Proponents for the discussed bills, were there any Opponents. There being no Opponents, he asked for discussion from the committee.

REPRESENTATIVE FAGG asked why is D.A. Davidson setting state policy in regards to the state bonding issue.

SENATOR TOWE answered because they successfully killed the bill last session, in both houses and they did a very good job of it, and we felt that rather than meet their ire, we'd take on the \$150,000. If you want, and if you think you've got the strength to go out above

that and fight D.A. Davidson on it, you've got my blessing to do it all the way. But, I do feel that if we can keep the faith with D.A. Davidson and their people who have worked with us on this bill, we ought to do that.

GARY BUCHANAN stated there were three firms on the committee, he feels they have some obligation to sit down and discuss the cap, and he feels it should be discussed tonight or at the committee's prerogative.

REPRESENTATIVE FABREGA asked if it was \$150,000 for anyone or was it one issue.

SENATOR TOWE stated No, that was each individual city. He explained that you could have 10 \$150,000 and that would total \$1.5 million.

CHAIRMAN VINCENT stated if no further questions on HB 733 and HB 818, they would proceed onto HB 832.

HB 832

REPRESENTATIVE FABREGA, Sponsor, stated that HB 832 is a rerun of the constitutional amendment #10 that would allow only investments to invest funds other than pension funds in stock. He read what the current constitutional amendment states. He felt short of writing letters to the editor, or some simple thing like that, people just didn't know what it was all about. He urged this bill a DO PASS.

CHAIRMAN VINCENT asked for further Proponents for HB 832.

PROPONENTS

JAMES JOWETH, Representing Board of Investments, stated their support of this bill.

GARY BUCHANAN, Director of the Department of Commerce, stated their support of this bill.

CHAIRMAN VINCENT asked for further Proponents, if not any Opponents, or questions from the Committee. He stated with no further questions from the committee, they would close the hearing on HB 832 and proceed onto HB 871.

HB 871

REPRESENTATIVE FAGG, Sponsor, stated basically this was the bill presented in the last session by Representative Hannah, and the form before the committee was the form that was killed on the third reading in the Senate by three or four votes. It went to the house and was almost carried unanimously. It was lobbied quite heavily by the banking association and a little bit by state government, because the Department of Commerce didn't think they were ready

for this big of step at that time. He felt they are more than adequately prepared for it this time. He explained HB 871 is simply creating for economic development in the commercial business, industrial manufacturing and industrial enterprises, what the housing board does for housing. He further explained HB 871, and stated this bill fills a void that we don't have in some of the other bills. This bill is written for a cap of \$2 million per loan, but he would like to see \$4 million. He stated this bill would hopefully get constructional and operational money under the 10%. He explained how the rates were coming down at this time.

DR. CROWLEY, Representing G.T. Murray, explained further HB 871. He stated the banking community does have the opportunity to review and work with the borrowers with a package and a 1% service fee for this loan, and can also participate in the loan under 10%. He stated he didn't feel they would have unworthy loans coming before the board. He felt this was a very flexible bill and they are looking for the revenues from the loans to repay the loans.

GARY BUCHANAN stated he rises as a Proponent to this suggestion. He explained they took a lot of concepts from Representative Fagg's bill in the last session and in the process used the key elements in this bill. He felt if the committee would consider amending further HB 700, perhaps be resolved in a subcommittee with the help of his department, the three issues could be combined in HB 700 and be a more constructive bill.

CHAIRMAN VINCENT asked if there were no further Proponents, were there any Opponents. Since there were no Opponents, he asked for questions from the Committee.

REPRESENTATIVE ASAY asked for further explanation of HB 871.

REPRESENTATIVE FAGG explained this bill by itself could be up to a 100% loan. Under the terms of this bill to qualify for land, construction, operating costs and architecture fees, the bill is very broad and coupled with the development corporation which we had last time. He agreed with Gary Buchanan to have a subcommittee to come up with a very concrete broad based proposal. He stated he has no private authorship of this bill, it is a committee bill, and he has no objection to taking some of the things out of this bill and getting them into another bill. He stated he would like to be a member of the subcommittee.

CHAIRMAN VINCENT asked if at this late date, they can do the kind of work that needs to be done with a subcommittee to pull this together.

GARY BUCHANAN stated if the committee authorized them to amend HB 700 and make this a series of amendments to HB 700, and since there are just three major issues here he feels they could work pretty quickly and would be glad to supply the staff.

REPRESENTATIVE FABREGA suggested that HB 871 be brought as closely to parallel with HB 700 so that the two of them could work hand in hand. He felt this was another option and he would like to look at both options.

REPRESENTATIVE ASAY asked if the type of loans that come under this couldn't come under the development credit corporation?

BILL HARRIS answered this bill and HB 700 are tax exempt financed, the Development Credit Corporation does not have the power to raise the tax exempt financing, so you have to have an agency like this to raise the money. The DCCM could borrow money through this mechanism and re-loan it.

CHAIRMAN VINCENT stated if there were no further questions on HB 832 the committee would proceed onto HB 721.

HB 721

REPRESENTATIVE WALLIN explained HB 721 and why we need health financing authority. He noted some type of tax exempt financing exists in every state. Twenty-two states have hospital financing authority. Montana Health Facility authorities could provide these services, first in determining the eligibility of the borrowers and second to recommend and assist in selecting and managing underwriters, bond counselors, etc., and third to review with the hospital the various advantages and disadvantages of the method, and fourth the authority to review the monthly disbursement reports and the timely investment and repayment of funds. This can become a clearing house for federal and state guaranteed funding levels available for assistance. He stated this bill was patterned after a bill in 1972 which establishes the authority of financing of hospitals and nursing homes. He further explained the mechanics of HB 721.

CHAIRMAN VINCENT asked if there were any Proponents to HB 721.

PROONENTS

KEN RUTLEDGE, Representing Montana Hospital Association, asked to clarify this bill, no it is not an economic development bill, but is a bill to facilitate capital formation for a non-profit institution. He explained it is a bill modeled after legislation in Colorado

and Idaho, and he referred to Exhibit C on why we need health financing authority? He stated the bill submitted to the Legislative committee for drafting was quite lengthy and the staff on this committee did an excellent job in reducing this approximately 50%. He noted that in going through the bill, there were a number of changes that had to be made when the bill came out. He would like to submit Exhibit D, regarding the amendments they would like. He also wanted to give the committee Exhibit E, which is from the Colorado Financing authority which gives an explanation of what the role of a state health facility financing authority is.

GARY BUCHANAN stated that Mr. Rutledge and others came to him a few weeks ago with a concept and he feels he and Representative Wallin have made it feasible for the state with this hospital financing.

GORDON HOVAN, Representing Piper, Jaffray & Hopwood, stated their support of HB 721.

JAMES GILLETT, Legislative Auditor's Office, stated they would have the same amendment for HB 721 as the others, see Exhibit F.

CHAIRMAN VINCENT stated since there were no further proponents to the bill, were there any opponents. Since there were no opponents, were there any questions.

REPRESENTATIVE FABREGA stated that he understood since HB 721 is not asking for any guarantee from the state, therefore there is no cap. He was answered that is correct.

REPRESENTATIVE RAMIREZ asked with specialty hospital financing you could do basically the same thing.

DOUG MITCHELL, Director of Colorado Financing Authority, explained that bonds issued by state-wide health financing authority are issued under Section 103, a IRS code, which he further explained. He noted the pooling that is possible under a state-wide authority for purposes for capital equipment financing is not available under the industrial development revenue bonds. He further explained when Industrial Development Bonds are issued they are issued and offered on a public market place through investment banking, which is the most common form.


REPRESENTATIVE WALLIN closed by saying this was a chance to do something great for the communities of Montana and urged support from the committee on this bill.

REPRESENTATIVE FAGG moved to appoint a subcommittee to put provisions of HB 871 into HB 700 or to make them parallel each other. He would also like to look into the uses of the bonding authorization in HB 818 to fund the reserve for all the bonding programs that this committee is considering.

GARY BUCHANAN stated his department would be happy to help in any way in regard to the above motion.

CHAIRMAN VINCENT stated the following subcommittee was to be appointed to study Representative Fagg's motion. Representative Harrington, Chairman; Representative Schye, Representative Darko, Representative Fabrega and Representative Fagg.

The meeting was adjourned at 8:34 p.m.


Mitzie Grover
Secretary


Representative John Vincent
Chairman

VISITORS' REGISTER

HOUSE SELECT - ECONOMIC DEVELOP. COMMITTEE

BILL HB 721

Date 2/17/83

SPONSOR _____

| NAME | RESIDENCE | REPRESENTING | SUP- PORT | OP- POSE |
|--------------|-----------|--------------------------|--------------|-------------|
| GORDON HOVEN | HELENA | Piper, Jaffray + Hopwood | X | |
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IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE SELECT ECONOMIC DEV. COMMITTEE

BILL HB 818

Date 2/17/83

SPONSOR

| NAME | RESIDENCE | REPRESENTING | SUPPORT | OPPOSE |
|----------------|-----------|------------------|---------|--------|
| Wynne Buchanan | Helena | WVSB A | X | |
| James W. Lacey | " | SAA M | X | |
| Don Judge | Helena | MT STATE AFL-CEO | Y | |
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IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE SELECT - ECONOMIC DEVELOPMENT COMMITTEE

Bill HB 733

Date 2/17/83

SPONSOR

| NAME | RESIDENCE | REPRESENTING | SUPPORT | OPPOSE |
|-------------------|-----------|------------------|---------|--------|
| Wayne Buchanan | Helena | MIBA | X | |
| Jessie W. Lusk | " | SAM | X | |
| Mae Ann Ellington | Missoula | City of Missoula | X | |
| Don Judge | Helena | MT STATE AFL-CIO | X | |
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IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE SELECT _ ECONOMIC DEVELOP. COMMITTEE

BILL HB 871

Date 2/17/83

SPONSOR _____

| NAME | RESIDENCE | REPRESENTING | SUP- PORT | OP- POSE |
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IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

HOUSE SELECT - ECONOMIC DEV. COMMITTEE

Bill HB 832

Date 2/17/83

Sponsor _____

| NAME | RESIDENCE | REPRESENTING | SUPPORT | OPPOSE |
|------|-----------|--------------|---------|--------|
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IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR LONGER FORM.
 PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

NAME: GORDON HOVEN DATE: 2/17/83

ADDRESS: 1414 KNIGHT, AZLENA, VT

PHONE: 443-4958

REPRESENTING WHOM? PIPER, JAFFRAY + HOPWOOD

APPEARING ON WHICH PROPOSAL: HB 721

DO YOU: SUPPORT? AMEND? OPPOSE?

COMMENTS: _____

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

STATE OF MONTANA

REQUEST NO. 452-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 16, 19 83, there is hereby submitted a Fiscal Note for House Bill 818 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 818 provides for the issuance of \$2 million in general obligation debt to finance a reserve fund for bonds issued under House Bill 733.

ASSUMPTIONS:

- 1) Bonds will be issued in FY84 to require two payments.
- 2) Interest rates vary from 7.375% to 9.375%, bond issue life will be 15 years with level annual principal payments.
- 3) Interest earned on reserve is a four point spread or 12½%.
- 4) Bond issue is effective July 1, 1984.

FISCAL IMPACT:

The funding source for repayment of the bonds is interest earned on the reserve under current law; the Economic Development Board or the Board of Investments will be required to establish a reserve fund for this issue in the first year of the issue in the amount of \$300,833. After which it is assumed that interest earnings on the total debt service will be sufficient to pay semi-annual installments. Total cost of the issue over a 15 year life would be \$3,394,170, which is calculated at an 8½% annual yield, and assumes a level annual principal payment. Investment earnings on the reserve are calculated to achieve a 12½% yield and the financing scheme would be effective on July 1, 1984.

| | <u>FY84</u> | <u>FY85</u> |
|---------------------------------|------------------|-------------------|
| Transfers from the board | \$341,832 | \$ -0- |
| Investment earning | 250,000 | 248,771 |
| Total Income | \$591,832 | \$248,771 |
| Principal and Interest payments | <u>(300,833)</u> | <u>(290,999)</u> |
| | <u>\$290,999</u> | <u>\$(42,228)</u> |

Since this is a general obligation bond issue, any deficit of funds will have to be assumed by the general fund if no other source of revenue is available. The effect of this bill is to use state general obligation debt to provide a reserve for the municipal bond bank authorized in HB 733.

FISCAL NOTE 16: X/1

David M Lewis

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-20-83

STATE OF MONTANA

REQUEST NO. 481-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 19, 19 83, there is hereby submitted a Fiscal Note for House Bill 871 pursuant to Chapter 53, Laws of Montana, 1965 - Thirty-Ninth Legislative Assembly.

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

House Bill 871 authorizes issuance of industrial revenue bonds with individual loans limited to \$2,000,000. Program is administered by a seven member economic development authority.

ASSUMPTIONS:

- 1) Seven (7) member board.
- 2) Three (3) member staff added to separate bureau in Board of Housing.
- 3) The board will issue \$20 million in bonds during the biennium.
- 4) Loan would be required for initial operating costs.
- 5) Federal law requires the bonds can be sold only after loans made.
- 6) Costs of issuance paid from bond proceeds.

FISCAL IMPACT:

| | <u>FY84</u> | <u>FY85</u> | <u>Total Bennium</u> |
|---------------------|------------------|------------------|--------------------------|
| Expenditures | | | |
| Personal Services | \$122,984 | \$122,521 | \$245,505 |
| Operating Expenses | 77,401 | 80,389 | 157,790 |
| Equipment | 5,010 | -0- | 5,010 |
| TOTAL | <u>\$205,395</u> | <u>\$202,910</u> | <u>\$408,305</u> |

Revenue:

A general fund loan for initial expenses of the board would be necessary. The loan would be repaid in 4 to 5 years under an agreement with state. An optimistic estimate of net income for the first biennium would be \$192,000 in bonds.

COMMENT:

If the board and staffing for issuing bonds were combined with the board and staff of HB's 100 or HB 700 the fiscal impact would be reduced and overhead costs spread between the programs'.

FISCAL NOTE 17: B/1

David M. Lewis

BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-21-83

STATE OF MONTANA

REQUEST NO. 451-83

FISCAL NOTE

Form BD-15

In compliance with a written request received February 16, , 19 83 , there is hereby submitted a Fiscal Note for House Bill 832 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

DESCRIPTION OF PROPOSED LEGISLATION:

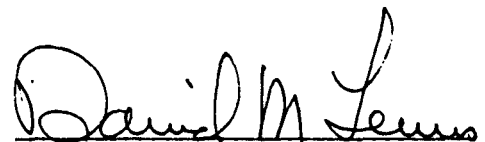
House Bill 832 is an act to submit to the qualified electors of Montana an amendment to Article VIII, Section 13, of the Montana Constitution to remove the restriction on investment of public funds in corporate capital stock and the requirement that investments of certain education funds bear a fixed rate of interest.

FISCAL IMPACT:

The cost to the Secretary of state would be approximately \$5,000.

If it is assumed that investments in equities will provide a greater hedge against future inflation than investments in bonds, then passage of the constitutional amendment would provide greater protection of the principal of the funds.

FISCAL NOTE 14:AA/1



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 2-19-83

STANDING COMMITTEE REPORT

Page 1 of 2

February 19..... 19... 83..

MR. Speaker.....

Speaker
We, your committee on..... Economic Development.....

having had under consideration House..... Bill No. 832.....

first reading copy (white)
color

A BILL FOR AN ACT ENTITLED: "AN ACT TO SUBMIT TO THE QUALIFIED ELECTORS OF MONTANA AN AMENDMENT TO ARTICLE VIII, SECTION 13, OF THE MONTANA CONSTITUTION TO REMOVE THE RESTRICTION ON INVESTMENT OF PUBLIC FUNDS IN CORPORATE CAPITAL STOCK AND THE REQUIREMENT THAT INVESTMENTS OF CERTAIN EDUCATION FUNDS BEAR A FIXED RATE OF INTEREST."

Respectfully report as follows: That..... House..... Bill No. 832.....

BE AMENDED AS FOLLOWS:

- (1) Title, line 7
Following: "TO"
Strike: remainder of line 7 through "ON" on line 8
Insert: "ALLOW THE"
- (2) Title, line 9
Following: "AND"
Insert: "ELIMINATE"
- (3) Page 1, line 23
Following: "~~stock.~~"
Insert: "Public funds may be invested in corporate capital stock."

XXXXXX

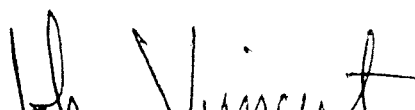
NA
John Vincent

February 19

19..... 83

- (4) Page 2, line 18
Following: line 17
Strike: "1983"
Insert: "1984"
- (5) Page 2, line 20
Following: "FOR"
Strike: "removing the restriction on"
Insert: "allowing the"
- (6) Page 2, line 21
Following: "and"
Insert: "eliminating"
- (7) Page 2, line 24
Following: "AGAINST"
Strike: "removing the restriction"
Insert: "allowing the"
- (8) Page 2, line 25
Following: "and"
Insert: "eliminating"

AND AS AMENDED
DO PASS





Box 1176, Helena, Montana

JAMES W. MURRY
EXECUTIVE SECRETARY

ZIP CODE 59624
406/442-1708

TESTIMONY OF DON JUDGE, MONTANA STATE AFL-CIO February 16, 1983
HB733 SELECT COMMITTEE ON ECONOMIC DEVELOPMENT 7:30 p.m.

I am Don Judge, representing the Montana State AFL-CIO.

We support House Bill 733. For several years the Montana State AFL-CIO has been on record as supporting the investment of Montana money in Montana. We have called for use of the coal tax trust fund to purchase the bonds put out by local government units, for the purpose of encouraging construction and jobs.

This bill concerns not just the coal tax trust fund, but all funds administered by the Board of Investments. There is a maximum investment limit of \$10 million, according to page 5, line 10 of the bill. That seems to be somewhat low. \$10 million is not much money when spread throughout local governments in Montana.

The concept is a sound one. It provides that the state may purchase local government bonds. Those bonds, being tax-exempt, often bear lower rates of interest than are available elsewhere. When the state purchases such bonds, the immediate rate of return is usually lower than may be available from other sources. But the purchase of the bonds stimulates economic activity and jobs. That in turn leads to increased taxes from individual income and often corporate license taxes, property taxes and other forms of taxation.

We believe that the state can make more money in the long run by such investments of Montana money in the Montana economy. That helps the state, the local government units involved, and all taxpayers.

We support the concept behind HB733. Thank you.

EXHIBIT A

AMENDMENT TO HOUSE BILL 733

1. Page 23, line 19.
Following: "year."
Insert: "by or at the direction of the legislative auditor.
The actual costs of the audit shall be paid from the board's
funds."

2. Page 23, lines 20 through 22.
Strike: "subsection (2) in its entirety."



Montana Hospital Association

(406) 442-1911 • P.O. BOX 5119 • HELENA, MONTANA 59604

TESTIMONY ON HOUSE BILL 721

Why do we need a health financing authority?

1. Most studies agree that there will be increased competition for capital in the 1980's.
2. The demand for capital for hospital capital projects will grow as facilities constructed with federal Hill-Burton funds in the 50's and 60's become outmoded and in need of renovation and replacement.
3. The shifting and aging of our population and new technology will also contribute to the need for capital.
4. Tax exempt revenue bonds are the major debt instrument used by hospitals today, accounting for 11 percent of the total tax-exempt bond market today, compared with only 2 percent in 1972.
5. Health facility authorities improve a hospital's access to the capital market, because it works continuously in the marketplace and has the information to broaden access.
6. Health financing authorities provide technical assistance to health care facilities which can assist them in improving their capital planning techniques and expertise.

How will a financing authority save hospitals and other health care facilities money in their capital expenditures?

1. The authority can assist the hospital in evaluating every financing strategy available to assure the most advantageous method of financing.
2. The authority can help negotiate the most favorable interest rates

and an equitable underwriting discount.

3. The authority can issue tax-exempt bonds for financing of a pool of capital equipment needs for a group of hospitals, thus spreading financing fees over many hospitals and making tax-exempt financing cost-effective where it otherwise would not have been so.
4. By funding private purchasers of hospital notes and bonds, eliminating many of the costs associated with public offerings.

HOUSE BILL NO. 721

MR. CHAIRMAN:

I move to amend House Bill No. 721 as follows:

1. On page 1 in line 12, by deleting the word "a" and substituting in lieu thereof the words "created a public body corporate designated as the"

2. On page 1 in line 12, by adding after the period: "This authority is constituted a public instrumentality, and its exercise of the powers conferred by [sections 2 through 26] shall be considered and held to be the performance of an essential public function."

3. On page 2 in line 15, by adding the following before the period: "except that the authority may employ its own staff as provided in [section 9]".

4. On page 7 in line 5, by deleting the words "procedural and substantive rules" and inserting in lieu thereof the words "policies and procedures".

5. On page 7 in line 10, by adding after the word funds "obtained from issuance of bonds and notes which are".

6. On page 10 in lines 15, 16 and 17, by deleting the words "Any lease of a facility must be for a term not less than the longest maturity of any bonds issued to finance the facility or a portion thereof."

7. On page 16 in line 23, by deleting the words "Findings before" and substituting in lieu thereof the words "Procedure for".

8. On page 16 in line 23, after the period following the word "bonds", insert "(1)".

9. On page 17 in line 1, by deleting the colon and further deleting all of lines 2, 3, 4, 5 and 6 and substituting in lieu thereof the following:

"such facility will enable or assist a health institution to fulfill its health care obligations.

"(2) The resolution for issuance of bonds or notes by the authority shall provide that no proceeds of any bonds or notes shall be expended for any facility until such facility, if required by law, has been reviewed and approved by the appropriate regional and state health planning boards."

10. On page 18 in line 16, by deleting the word "authority" and substituting in lieu thereof the words "of the health facility being financed".

11. On page 20 in lines 5, 7, 10 and 13, by deleting the word "must" as the word appears in each of said lines and substituting in each instance the word "may".

12. On page 24 by adding a new section as follows:

"Section 29. This act is effective on passage and approval."

THE ROLE OF A STATE HEALTH FACILITY FINANCING AUTHORITY IN ACQUISITION OF CAPITAL

Acquisition of capital involves several steps:

- (1) Determination of the capital needs of the institution;
- (2) Analysis of the alternative financing methods available to the institution;
- (3) Initiation and scheduling of the financing;
- (4) Negotiation and determination of the terms, covenants and costs of the financing; and
- (5) Finalization of the financing.

Determination of capital needs

In determining the capital needs of the institution, it is necessary to analyze the following:

- (1) The current, outstanding debt of the institution;
- (2) The long-range capital plans of the institution (3 to 5 years);
- (3) The financial position of the institution and any indications that the financial position gives as to the soundness of the fiscal plan; and
- (4) The effect of the institution's reimbursement system on the proposed capital project.

Analysis of alternative financing methods

The following methods of capital acquisition may be available to the institution:

- (1) Philanthropy and grants;
- (2) Conventional or tax-exempt private placement loans, both short-term and long-term, with institutional lenders (banks, insurance companies, savings and loan associations);

(3) Conventional or tax-exempt public offerings, both short-term and long-term; and

(4) Government programs.

It is important that the method or combination of methods selected best fit the needs and capabilities of the institution.

Initiation and scheduling of the financing

After the institution has determined the amount, term and method of financing best suited to its needs, it must then select and notify all the parties to be involved. Time limits for the financing must also be established. It is important to the timely progression of a financing to understand and address the time restrictions and requirements of all involved parties.

Negotiation and determination of terms, etc.

The terms and covenants of a financing must be carefully determined because of the impact such terms and covenants will have on the future operations of the institution and the impact they will have on the acceptance of the financing in the marketplace.

In the public offering method of financing, the interest rates are negotiated separately from the terms and covenants. The institution must understand the relationship between marketplace acceptance of the offering and the interest rates. There must also be an understanding of the relationship between interest rates and underwriter's discounts and premiums.

Finalization of the financing

In order to finalize the financing, the institution must provide the necessary documents, representations, warranties and certifications.

THE ROLE OF THE AUTHORITY

The role of the Authority in health care institution financings is an important one. The Authority can (1) significantly reduce the costs of borrowings, (2) provide knowledgeable assistance to institutions in acquiring capital and (3) provide an orderly marketplace for the institutions' debt.

Reducing the costs of borrowings

In addition to providing the vehicle which allows the financings to be tax-exempt, the Authority can further reduce the costs of borrowings by offering "consistency" to the investors. The Authority's financings must consistently provide fair and realistic terms and covenants sufficient to protect the position of the lenders or bondholders. The investors will then develop a reliance upon the Authority. Few investors truly have the expertise to properly analyze a hospital revenue financing, and the more reliance the investors can place on the Authority's financings, the better acceptance that financing will enjoy in the capital marketplace.

Also, by consistently providing fair and realistic terms, the Authority can develop a knowledge of the capital marketplace which can be passed on to health care institutions. This will assist those institutions during the early stages of developing a capital program by giving them an awareness of any special terms they must provide for and the impact such special terms will have on the marketing of their debt.

Consistency in the financing documents will also help to reduce borrowing costs by limiting the time necessary for review of the documents by the investors, rating agencies, bond counsel, Authority counsel and counsel for the institution. Limited time requirements means lower fees.

Providing assistance to the institution

The Authority should provide qualifying institutions with the expertise necessary to consummate a successful financing. This expertise can come from three basic sources:

- (1) The Authority could hire employees qualified to provide the expertise;
- (2) The Authority could rely upon investment bankers to provide the expertise; or
- (3) The Authority could utilize a firm specializing in financial advisory services to provide the expertise.

Providing an orderly marketplace

The Authority can provide an orderly marketplace for institutions financing through the Authority. By monitoring the money markets, the Authority would have the ability to schedule financings so that competition between Authority public offerings would be eliminated. This same procedure would eliminate competition between any private placement financings. In addition, the Authority can establish relationships with banks and savings and loan associations creating a source of capital not usually available to health care institutions on a tax-exempt basis.

THE ROLE OF THE FINANCIAL ADVISOR

The role of the financial advisor is to assist the Authority in obtaining capital for health care institutions from various money markets through the most suitable method and at the lowest possible interest cost. To accomplish this, the financial advisor should:

- (1) Advise the Authority of the effects, if any, of its policies on financial institutions, public bond investors, rating agencies, health care institutions and other parties involved in Authority financings;
- (2) Assist the Executive Director of the Authority in discussions with health care institutions about proposed financings and the Authority's ability to assist in such financings;
- (3) ~~Work with the Executive Director of the Authority in developing financing~~ programs for special health care providers (small hospitals, nursing homes, homes for the developmentally handicapped, blood banks, etc.); and
- (4) Assist the Executive Director of the Authority in the following areas:
 - (a) Advising institutions on their specific capital planning and needs;
 - (b) Advising institutions of the alternative methods of financing;
 - (c) Providing the institutions with a realistic financing schedule;
 - (d) Coordinating the efforts of all the parties involved in the financing from initiation through the consummation of the financing;
 - (e) Analyzing and negotiating the terms, covenants and costs of the financing and explaining the effects of same on future operations of the institution;
 - (f) Preparing the official statement for public offerings; and
 - (g) Negotiating the interest rate and underwriters' discount, if any, of the financing.

AMENDMENT TO HOUSE BILL 721

1. Page 24, line 3.
Following: "year."
Insert: "by or at the direction of the legislative auditor.
The actual costs of the audit shall be paid from the authority's
funds."
2. Page 24, lines 3 through 5.
Strike: "subsection (2) in its entirety."