

MINUTES OF THE MEETING
BUSINESS AND LABOR COMMITTEE
MONTANA STATE
HOUSE OF REPRESENTATIVES

March 25, 1985

The meeting of the Business and Labor Committee was called to order by Chairman Bob Pavlovich on March 25, 1985, at 8:00 a.m. in Room 312-2 of the State Capitol.

ROLL CALL: All members were present.

SENATE BILL 349: Hearing commenced on Senate Bill 349. Senator Joe Mazurek, District #23, sponsor of the bill by request of the Montana Economic Development Board, explained this revises the bonding authority of the board. The bill allows the board to use the in-state investment fund to guarantee loans or bonds for a fee. The board is authorized to lend money from the in-state investment fund to the capital reserve account. The bonds are not marketable outside of the state. This will give the board the authority to establish a loan loss reserve account.

Proponent Dale Harris, Deputy Administrator, Economic Development Board, explained the guarantee is necessary to market the funds. The focus of the "Build Montana" program is on small business projects. By deleting the 1 million dollar maximum we will stray from this. This bill clarifies the allocation of the bonding authority, added Mr. Harris.

Proponent Mary Munger, representing the Montana Health Facility Authority, stated they would benefit from the in-state investment fund and that it could be used upon requirement of authority to guarantee notes and bonds.

Proponent Don Allen, representing the Montana Hospital Association, explained that the cost of health care must include the cost of money and this will help contain health care costs.

Representative Norm Wallin, District #78, offered his support and stated this will enable those small borrowers to get a favorable rate.

Proponent Mike Fitzgerald, President, Montana International Trade Commission who was behind the "Build Montana" program offered his support. We need the maximum amount of initiative and financial tools to build Montana. Many projects to reinstate the industrial base require greater than 1 million dollars.

Proponent Steve Browning, representing Miller & Schroeder Municipals, Inc., stated the federal government will move to restrict the use of industrial revenue bonds and significant projects could be denied industrial revenue bond funding.

Representative Kadas asked Senator Mazurek what the rationale was on the senate floor to remove the 1 million dollar provision. Senator Mazurek stated the concern for funding larger projects was the reason.

Representative Kadas asked Dale Harris to comment on the remarks made by Steve Browning regarding the federal government. Mr. Harris explained that there is a federal act that sunsets December, 1986 and further restrictions are being imposed. The idea that larger projects should stand on their own credit are apparent.

Representative Simon asked Dale Harris what has happened in the two year period. Mr. Harris stated that under the coal tax program there is 15.5 million dollars loaned to 13 business' to date and that the pooled investment revenue bond funds could not be implemented due to pending legislation.

Representative Simon then asked Dale Harris if there is the need and interest in money over 1 million dollars. Mr. Harris stated there are seven business' currently that have projects over 1 million dollars.

Representative Kadas called upon Dale Harris to explained the term "moral obligation" as used in his testimony.

There being no further discussion by proponents and no opponents present, all were excused by the chairman and the hearing on Senate Bill 349 was closed.

SENATE BILL 438: Hearing commenced on Senate Bill 438. Senator Joe Mazurek, introduced the bill for Senator Tom Towe, District #46, sponsor of the bill. Senate Bill 438 places a ceiling of \$250,000 on the net worth of a borrower from the Montana Agricultural Loan Authority, reduces from \$400 million to \$40 million the total bonding authority for Beginning Farmer Loans and is effective immediately.

Proponent Keith Kelly, Director, Department of Agriculture, supplied written testimony which is attached hereto as Exhibit 3.

Proponent Terry Murphy, a member of the Montana Agriculture Loan Authority, distributed to committee members Exhibit 4 which is attached hereto. Mr. Murphy explained the proposed amendments and stated many do not realize what the provision "first approved" entails.

Representative Driscoll asked Keith Kelly why the programs can't be guaranteed by the coal tax fund and receive a lower interest rate. Mr. Kelly explained that this was looked at, but would take major re-writing.

There being no further discussion by proponents and no opponents present, all were excused by the chairman and the hearing on Senate Bill 438 was closed.

SENATE BILL 408: Hearing commenced on Senate Bill 408. Senator Gene Thayer, District #19, sponsor of the bill by request of the Senate Business and Industry Committee, explained this exempts transaction by capital companies from salesman and issuer registration provisions of the Securities Act and is effective immediately.

Representative Kadas asked Senator Thayer if there have been any problems since 1981 in this area. Senator Thayer referred the question to Dale Harris who stated that the bill exempted security of companies but they are still subject to fraud laws regarding securities. The state auditor and the board agree this should be in the law, rather than at the security commissioners discretion.

There being no further discussion by proponents and no opponents present, all were excused by the chairman and the hearing on Senate Bill 408 was closed.

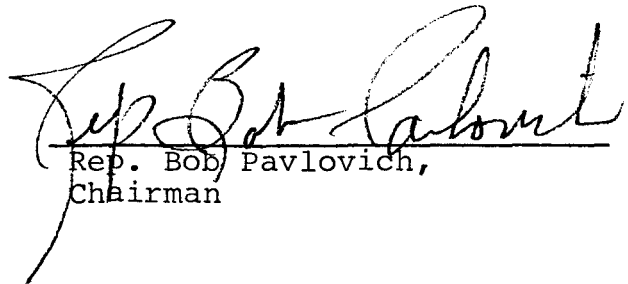
ACTION ON SENATE BILL 408: Representative Brandewie moved DO PASS on Senate Bill 408. Second was received, Senate Bill 408 will BE CONCURRED IN by unanimous vote.

ACTION ON SENATE BILL 438: Representative Brandewie moved DO PASS on Senate Bill 438. Representative Schultz moved the proposed amendment, which passed by unanimous vote. Representative Nisbet moved to strike section 4 of the bill, the amendment did pass by unanimous vote. Representative Glaser commented that this is doing nothing to help agriculture, there problem is cash flow. Question being called, Senate Bill 438 will BE CONCURRED IN by unanimous vote.

ACTION ON SENATE BILL 349: Representative Brandewie moved DO PASS on Senate Bill 349. Representative Schultz questioned whether loans over \$1 million should be stand alone type loans. Representative Simon stated that they have not used this yet, but the interest is there. Representative Wallin stated this could eliminate many and that there is no danger in increasing, the guarantee fund may never be used. Representatives Brandewie, Thomas and Glaser did agree. Representative Kadas added that small business is better for economic and political stability. Representative Kadas moved to amend, raising the maximum to \$2 million. A roll call vote resulted in 13 members voting yes and 7 members voting no. Senate Bill 349 will BE CONCURRED IN by unanimous vote.

ACTION ON SENATE BILL 74: Representative Kitselman moved DO PASS on Section Bill 74 and moved the amendments proposed by Tom Schneider. Representative Driscoll stated he understands the intent, but this is not technically correct. Representative Kitselman stated that in the codes there is a list of what highway patrolmen can and can not do. Representative Kadas moved to amend on page 2, line 6, following safety, insert within jurisdiction. The amendment did pass. Representative Kitselman moved the first Schneider amendment which passed with Representatives Jones and Keller voting no. Representative Kadas made a substitute motion to strike all consideration of Section 3. Representative Kadas then withdrew his motion. Senate Bill 74 will be held for further consideration.

ADJOURN: There being no further business before the committee, the meeting was adjourned at 10:00 a.m.


Rep. Bob Pavlovich,
Chairman

DAILY ROLL CALL
BUSINESS AND LABOR COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date March 25, 1985

NAME	PRESENT	ABSENT	EXCUSED
Bob Pavlovich	✓		
Les Kitselman	✓		
Bob Bachini	✓		
Ray Brandewie	✓		
Jan Brown	✓		
Jerry Driscoll	✓		
Robert Ellerd	✓		
William Glaser	✓		
Stella Jean Hansen	✓		
Marjorie Hart	✓		
Ramona Howe	✓		
Tom Jones	✓		
Mike Kadas	✓		
Vernon Keller	✓		
Lloyd McCormick	✓		
Jerry Nisbet	✓		
James Schultz	✓		
Bruce Simon	✓		
Fred Thomas	✓		
Norm Wallin	✓		

STANDING COMMITTEE REPORT

March 25 19 85
page 1 of 2

MR. **SPEAKER**

We, your committee on **BUSINESS AND LABOR**

having had under consideration **SENATE** Bill No. **438**

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CHANGES ELIGIBILITY FOR BEGINNING FARMER LOANS AND REDUCES BOND AUTHORITY

Respectfully report as follows: That **SENATE** Bill No. **438**

BE AMENDED AS FOLLOWS:

1. Title, line 7
Following: "LOANS;"
Insert: "CLARIFYING APPROVAL PROCESS FOR TAX DEDUCTION TO SELLER OF
AGRICULTURAL LAND;"
2. Title, line 8
Following: "80-12-204,"
Insert: "80-12-211,"
3. Page 4, line 17
Strike: Section 4 in its entirety
Insert: "Section 4. Section 80-12-211, MCA, is amended to read:
"80-12-211. Income tax deduction for land sale to beginning farmers. A
landowner who sells land consisting of 80 acres or more to a beginning
farmer at 9% or less interest on a long-term contract is entitled to a
reduction in his taxable income in an amount equal to 100% of any income
or capital gain, or both, realized and otherwise subject to state income
taxes from the sale, up to a maximum of \$50,000, provided the
transaction is first approved by the authority for this purpose

BE CONCURRED IN AS AMENDED

STANDING COMMITTEE REPORT

March 25

85

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MR. SPEAKER

We, your committee on BUSINESS AND LABOR

having had under consideration SENATE

Bill No. 408

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color

**EXEMPT CAPITAL COMP. FROM DUTY TO REGISTER AS SECURITIES
SALESMAN, ISSUER**

SENATE

408

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

**DO PASS
BE CONCURRED IN**

STATE PUB. CO.
Helena, Mont.

Rep. BOB DAVLOVICH,

Chairman.

COMMITTEE SECRETARY

STANDING COMMITTEE REPORT

March 21

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page 1 of 2

MR. SPEAKER

We, your committee on BUSINESS AND LABOR

having had under consideration SENATE Bill No. 325

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color

ESTABLISHMENT OF STATEWIDE EMERGENCY PHONE SYSTEM

Respectfully report as follows: That SENATE Bill No. 325

BE AMENDED AS FOLLOWS:

1. Title, line 11
Strike: "AN"
2. Title, line 12
Strike: "DATE"
Insert: "DATES"
3. Page 4, line 10
Following: "means"
Strike: "a person"
Insert: "an end user"

XXXXXX
DO PASS

4. Page 5, line 3
Following: "(c)"
Strike: the remainder of line 3, lines 4 and 5 in their entirety, and line 6 through "services"
Insert: "a 24-hour communications facility equipped with at least two trunk-hunting local access circuits provided by the local telephone company's central office"
5. Page 8, line 1
Following: "plan."
Insert: "In any statement approving a final plan, the department shall indicate a timetable in which the provider shall undertake necessary telephone system conversions. The timetable must be such that conversions may not be required unless sufficient funds to compensate the provider for its conversion costs are available within 1 year of the initial installation of the 9-1-1 system."
6. Page 16, line 7
Following: "Effective"
Strike: "date"
Insert: "dates"
Following: ". "
Strike: "This act is"
Insert: "(1) [Sections 9 through 20], to the extent that they show a provider who voluntarily complies with the provisions for emergency telephone system in [section 2] to impose, collect, and use the proceeds of a charge of 25 cents a month per access line on each service subscriber, and this section are"
7. Page 16, following line 8
Insert: "(2) Sections 1 through 8 are effective July 1, 1987."

BE CONCURRED IN
AS AMENDED

STANDING COMMITTEE REPORT

March 25

85

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MR. SPEAKER

We, your committee on BUSINESS AND LABOR

having had under consideration SENATE Bill No. 349

third reading copy (blue)
color

AUTHORIZE ECONOMIC DEVELOPMENT BOARD TO GUARANTEE BONDS OR LOANS

Respectfully report as follows: That SENATE Bill No. 349

BE AMENDED AS FOLLOWS:

1. Page 5, line 8

Following: "section."

Insert: "(4) Bonds or loans for projects financed under 17-5-1501 through 17-5-1523 whose cost or appraised value for which the financing to be provided by the board exceeds \$2,000,000 and that are not part of a pooled bond issue may not be guaranteed under the provisions of this section."

2. Page 4, line 6

Following: "(2)"

Insert: "Except as provided in subsection (4), the"

Strike: "TIN"

~~DO PASS~~
BE CONCURRED IN AS AMENDED

ROLL CALL VOTE

HOUSE COMMITTEE BUSINESS AND LABOR

DATE March 25, 1985 BILL NO. 349 TIME _____

NAME	AYE	NAY
Bob Pavlovich	✓	
Les Kitzelman		✓
Bob Bachini	✓	
Ray Brandewie		✓
Jan Brown	✓	
Jerry Driscoll	✓	
Robert Ellerd		✓
William Glaser	✓	
Stella Jean Hansen	✓	
Marjorie Hart	✓	
Ramona Howe	✓	
Tom Jones		✓
Mike Kadas	✓	
Vernon Keller	✓	
Lloyd McCormick	✓	
Jerry Nisbet	✓	
James Schultz	✓	
Bruce Simon		✓
Fred Thomas		✓
Norm Wallin		✓

Secretary Debbie Aquil

Chairman Bob Pavlovich

Motion: 13-7
amendment by Rep. Kadas

EVENSEN DODGE, INC.

FINANCIAL CONSULTANTS

March 22, 1985

Mr. Keith Colbo
Director
Department of Commerce
Helena, MT

Dear Mr. Colbo:

As the state-wide financial advisor for Montana, we offer the following comments regarding the provisions of Senate Bill No. 349 allowing the Montana Economic Development Board to use the in-state investment fund to guarantee loans or bonds.

A clear distinction must be made between providing guarantees for projects under \$1,000,000 and for providing guarantees for major projects (those in excess of \$1,000,000).

PROJECTS UNDER \$1,000,000:

For projects under \$1,000,000 the Board has a program for pooling projects to lower the costs and spread the risks of doing a financing. The program requires substantial developer equity in addition to a letter-of-credit from a bank equal to 35% of the original principal amount of the loan. As an additional protection, each loan recipient is charged an annual fee equal to 1/2 of one percent of the loan balance to establish a guarantee fund which provides additional protection for all bondholders and the State of Montana. All of the protections built into the program provide a great deal of comfort that the State will not be called upon to make an appropriation under the "moral obligation" provisions of the bond issue.

Allowing the Board to guarantee loans or bonds under the pooled program will allow the bonds to receive a credit rating and hence be marketed at lower interest rates without providing any additional exposure to the State. In fact, as the number and diversity of loans in the pool increases, the program as a whole becomes stronger and the risk to the Board decreases.

Mr. Keith Colbo
March 22, 1985
Page 2

MAJOR PROJECTS:

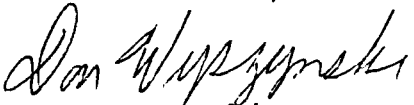
The Board has not yet issued bonds to finance any major projects and has no current plans for providing guarantees of loans or bonds for major projects. It is very important that the Board act cautiously in implementing such a guarantee program. The lack of an existing pool of major projects to spread risk, combined with the potential large size of any one major project, increases the likelihood of needing to borrow money from the in-state investment fund to cover a deficiency resulting from a project delinquency. The pooled program for projects under \$1,000,000 can withstand a reasonable level of project defaults without jeopardizing any assets of the Board or the State's "moral obligation". However, if not properly structured, a default of one major project could result in an erosion of capital in the in-state investment fund.

It may be possible to structure a guarantee program for major projects which will adequately protect the in-state investment fund; however, such a program has not yet been designed by the Board. It would be in the best interest of the Board to obtain some experience in financing major projects prior to giving consideration to implementing a guarantee program.

Please feel free to contact Pat Born or myself if you have any questions or desire additional information.

Sincerely,

EVENSEN DODGE, INC.



Don Wyszynski
Senior Vice President

DW/dls

MONTANA ECONOMIC DEVELOPMENT BOARD Submitted by: Dale Harris
POOLED INDUSTRIAL REVENUE BOND PROGRAM

PROTECTION TO FUNDED GUARANTEE

	<u>MINIMUM</u>		<u>ACTUAL</u> *
EQUITY CONTRIBUTION TO BORROWER:	10%		21%
BANK LETTER OF CREDIT	35%		35%
GUARANTEE FUND FROM BORROWER CONTRIBUTIONS **			
- APPROX. 5% OF TOTAL LOANS OUTSTANDING	@ 15%	@	15%
- APPROX. 33% OF AVERAGE LOAN			
TOTALS:	<u>60%</u>		<u>71%</u>
REQUIRED LIQUIDATION RECOVERY AT COST:	<u>40%</u>		<u>29%</u>
(Appraised value generally exceeds cost)			

In addition, each bond issue includes a 15% capitalized reserve account, which may also be used to make payments on the bonds until assets are liquidated.

* BASED ON THE MEDB's FIRST POOLED ISSUE IN DECEMBER, 1984

** FUNDED BY A .5% INTEREST RATE OVERRIDE PAID BY BORROWERS;
AVERAGE BALANCE IN FUND FOR THE BOARD's DECEMBER 1984 ISSUE OVER FIRST
THREE YEARS IS \$140,000.



TED SCHWINDEN
GOVERNOR

STATE OF MONTANA
DEPARTMENT OF AGRICULTURE

OFFICE OF THE DIRECTOR
AGRICULTURE/LIVESTOCK BLDG.
CAPITOL STATION
HELENA, MONTANA 59620-0201

Exhibit 3
3/25/85
SB438

Submitted by: Keith Kelly

TELEPHONE:
AREA CODE 406
444-3144

KEITH KELLY
DIRECTOR

Testimony of Montana Department of Agriculture

Director Keith Kelly for the House Committee

on Business and Labor Regarding

Senate Bill 438

Monday, March 25, 1985

Chairman Pavlovich, Members of the Committee. The Department of Agriculture supports the passage of Senate Bill 438 with amendment as it effects the Montana Agricultural Loan Authority Act. The bill will reduce bonding authority to a more realistic limit considering current agricultural conditions and more clearly define criteria for applicant qualification and the state tax deduction available to the seller of agricultural land.

My involvement as a member of the Governor's Capital Finance Advisory Council reinforces my understanding of bonding processes and the value of maintaining a realistic bonding limit to help ensure the overall excellent bond rating currently received by the state of Montana.

Considering the federal restitutions put on the Beginning Farm Loan Program by the recent tax reform act it is important that applicant qualifications criteria be very clear and that the program be able to assist as many future farmers and ranchers as is feasible under the program constraints.

Proposed Amendment to Senate Bill 438

To The House Committee

on Business and Labor

March 25, 1985

Proposed Amendment of Senate Bill 438 reads as follows:

Title, page 1, line 7.

Insert - following "LOANS;" CLARIFYING APPROVAL PROCESS FOR
TAX DEDUCTION TO SELLERS OF AGRICULTURAL LAND;

Title, page 1, line 8.

Insert - following "80-12-204," 80-12-211,
Section 4, page 4, line 17.

Section 4, Section 80-12-211, MCA is amended to read:

80-12-211. Income tax deduction for land sale to beginning farmers. A landowner who sells land consisting of 80 acres or more to a beginning farmer at 9% or less interest on a long-term contract is entitled to a reduction in his taxable income in an amount equal to 100% of any income or capital gain, or both, realized and otherwise subject to state income taxes from the sale, up to a maximum of \$50,000, provided the transaction is ~~first~~ approved by the authority for this purpose.

Renumber following sections appropriately.

VISITORS' REGISTER

BUSINESS AND LABOR

COMMITTEE

BILL NO. Senate Bill 349DATE March 25, 1985SPONSOR Senator Mazurek

NAME (please print)	REPRESENTING	SUPPORT	OPPOSE
Mike Fitzgerald	West Trade Assoc.	✓	
Steve Brading	Mike Schroeder	✓	
Bob Parich	MEDS	✓	
Don Allen	MT Hospital Assoc.	✓	
Therese Hunsgr	MT Health Fin. Unit	✓	
Jack Nielson	✓ ✓ ✓ ✓	✓	

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

BUSINESS AND LABOR

BILL NO. Senate Bill 408

DATE March 25, 1985

SPONSOR Senator Thayer

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FOR

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

VISITORS' REGISTER

BUSINESS AND LABOR

COMMITTEE

BILL NO. Senate Bill 438

DATE March 25, 1985

SPONSOR Senator Towe

[illegible]

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

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.