MINUTES OF THE MEETING
APPROPRIATIONS COMMITTEE
50TH LEGISLATIVE SESSION

The meeting of the Appropriations Committee was called to order by Chairman Rep. Gene Donaldson on February 9, 1987, at 1:00 p.m. in Room 104 of the State Capitol.

ROLL CALL: All members were present at the meeting except Reps. Menke who was excused and Reps. Bradley, Iverson, Menahan, Quilici, Spaeth, and Swift who were late. Also present at the meeting were Judy Rippingale, LFA and Denise Thompson, Secretary.

HB 382: (20:A:0.39)

Rep. Connelly of House District 8 presented a brief overview of the bill, section by section (Attachment 1). The bill would establish a new fund that could be used to finance low interest loans to elementary and secondary school districts for new buildings and for insurance.

Rep. Connelly presented a Chart which explained the monies and expenses of the program (Exhibit 1).

PROPONENTS:

Mr. Ed Argenbright, Superintendent of Public Instruction, urged the committee's support of the bill. He stated that the bill could save some money for the school districts. Most other states have this type of assistance. The insurance situation has been a problem with some schools going without insurance for periods of time. He felt this bill would assist the schools in this respect as well as help the property tax payers.

(20:A:14.45)Mr. Rick Bartos, Attorney, Office of Public Instruction, stated there were three items which this bill would address: 1) The underfunded foundation program lawsuit. One allegation made in that lawsuit is that the state of Montana has little or no participation in capital outlay projects; 2) Initiative 105 has placed many concerns before all public entities. The office asked for an Attorney General's opinion as to the effect of I 105 in school bonding capacity. Schools are attempting to sell bonds but do not have the assurance from the Attorney General's office that what they are doing is correct. This is a tax relief effort in light of I 105. It provides a stable source of funding for those school districts that warrant capital outlay; 3) It also will help the schools in an effort to cut insurance premiums.

Mr. Bill Anderson, Deputy Superintendent, Office of Public Instruction stated the program will support the insurance. For the first two years, this program would be revenue positive to the state (Exhibit 2).

(20:A:23.30) Alan Nicholson, Vice Chairman of the State Board of Public Education, stated that in their last meeting, the board voted unanimously to support the intent of the bill.

John Dallum, Superintendent of schools, Cascade County stated that three years ago, because the insurance rates were doubling, 28 schools attempted to put together a trust. They would pool their own premium and handle their own insurance. Two consulting firms examined the situation finding a problem. They could not stabilize the rate even with trust concept. They could follow the market, they could save administrative costs but they would be 3 to 6 percent behind the prevailing insurance rates. Also the schools could not build a broad enough base to absorb a shock loss in the first, critical, three to five years. This proposed program would cover those two areas. He feels that this program would allow the schools to develop the trust insurance funds.

Bob Anderson, representing the Montana School Board's Association, spoke in support of the bill and the concept of the bonding and insurance program.

(20:A:26.50) Bob Brown, School Superintendent of Clancy, also spoke in favor of the bill. He stated that the liability insurance two years ago was $20; now it is $53 per student. This would be a viable alternative to what they are doing now.

John Campbell, School Administrators of Montana, stated that the administrators endorse and support the bill.

<u>OPPONENTS</u>:

There were no opponents to the bill.

<u>QUESTIONS</u>:

Chairman Donaldson said he was still concerned in regard to the trust fund and how the insurance program would get set up asked that someone review the chart again.

Mr. Anderson went over the chart again. The committee still had some problems with the program.

Rep. Nathe asked if the schools are in any way obligated to the program. Mr. Anderson said no.

There was discussion on the bill, how it was set up and the pros and cons of the program.

The committee directed the LFA to search this out and see what information she could find on the program, the effects it would have and the proper way to set it up.

Rep. Connelly closed on her bill by saying that it addresses four things: 1) provides low interest loans to schools; 2) set long range guidelines on school facilities; 3) provides a uniform insurance program; and 4) they would be using the coal tax trust fund for what it was set up to do.

(20:B:38.25) The committee asked that the LFA report back in one week with the answers she found.

ADJOURNMENT:

There being no further business before the committee the meeting adjourned at 2:25 p.m.

Gene Donaldson

Rep. Gene Donaldson, Chairman

DAILY ROLL CALL

APPROPRIATIONS COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 2/9/87

NAME	PRESENT	ABSENT	EXCUSED
DONALDSON, GENE (Chairman)	✓		
THOFT, BOB (Vice Chairman)	✓		
WINSLOW, CAL (Vice Chairman)	✓		
BARDANOUVE, FRANCIS	✓		
BRADLEY, DOROTHY	✓	late	
CONNELLY, MARY ELLEN	✓		
DEVLIN, GERRY	✓		
IVERSON, DENNIS	✓	late	4th
MANUEL, REX	✓		
MENAHAN, WILLIAM "RED"	✓	late	
MENKE, LARRY			✓
MILLER, RON	✓		
NATHE, DENNIS	✓		
PECK, RAY	✓		
POULSEN, HAROLD	✓		
QUILICI, JOE	✓	late ✓	
REHBERG, DENNIS	✓		
SPAETH, GARY	✓	late	
SWIFT, BERNIE	✓	late	✓
SWITZER, DEAN	✓		

CS-30

HB 382—Mary Ellen Connelly
Ron Miller

Program Year	Long Range Education and Building and Insurance Basic Funding Source	Temporary Education Building and Insurance Basic Funding Alternate Funding Source
	Coal Severance Tax Permanent Fund	Sale of General Obligation Bonds
1	$10,000,000	$10,000,000

Education Building and Insurance Basic Funding

Cash Reserve

$20,000,000

Education Building and
Insurance Basic Funding
Other Revenue

Interest on Education Building and Insurance Basic Funding Reserve
Insurance Premiums
Principal Payment on School Loans
Interest Payment on School Loans

Education Building and
Insurance Basic Funding
Expenditures

Insurance Losses
Payments on Obligation Bonds
Interest on Coal Severance Tax Permanent Fund to State
Capital Expenditure Loans to Schools

Program Operation Costs

20

20th Year (Estimated)
Education Building and Insurance Basic Funding Perpetual Cash Reserve

$31,500,000

Return

Trust

Outcomes

***$1,500,000**
All income over perpetual reserve of $30,000,000 automatically returns to Coal Severance Tax Permanent Fund

$30,000,000 perpetual reserve
Insurance program in place
Property tax relief on school capital expenditures
Limits on property taxes for capital expenditures
$15,000,000 per year available for capital expenditure loans
Permanent property tax relief or additional state revenue

50th Legislature LC 303

STATEMENT OF INTENT

____ Bill No. ____

A statement of intent is required for this bill because rulemaking authority is granted to the superintendent of public instruction in sections 15 and 19.

The legislature's intent is to authorize the superintendent of public instruction to adopt the rules necessary for administering loans to school districts for capital expenditures and insurance losses and a deductible self-insurance program for school districts who choose to subscribe.

The authority for making rules for administering loans is limited by section 15 to prescribing the form and content of applications for loans; establishing criteria for recommending a project to the legislature; providing for the servicing of loans; and describing the terms and conditions for making loans, subject to the provisions of section 13.

The legislature further intends that the superintendent of public instruction develop and administer a deductible self-insurance plan that will provide elementary and secondary school districts the coverage described in sections 16 through 18 for a premium that is competitive with the average premium required by private carriers now and that will remain stable over a reasonable period of time.

7014b/c:Jeanne2\WP:jj

EDUCATION BUILDING AND INSURANCE FUND

SPONSORS: REPRESENTATIVE MARY ELLEN CONNELLY
REPRESENTATIVE RON MILLER

House Bill 382 provides a comprehensive insurance program and establishes an education building and insurance fund **to finance low interest loans** to **elementary** and **secondary** school districts for capital expenditures. The following questions and answers address aspects of the two programs.

1. What are the basic functions of House Bill 382?

Because the state does not participate in or provide assistance to local school districts in capital expenditures for the building or remodeling of school facilities, the burden of capital outlay falls on local school district property taxpayers. No money is available for financing capital outlay other than local property taxes of that school district. In order to finance remodeling or new building construction, districts must increase property taxes.

Also, school districts must provide insurance protection from liability and casualty loss for school district property. Since no state comprehensive insurance program is available, schools must seek protection from private vendors, if they can secure insurance at all. Premiums are unstable and constantly escalating.

2. Why should the state become involved in the financing of capital expenditure and outlay for school buildings?

A. The establishment of the building program would provide the state an opportunity, through low interest loans, to prioritize those building programs that are essential in providing basic education and meeting accreditation standards.

Although insurance coverage has been provided primarily by private insurance, there is uncertainty in the insurance industry, and school districts are finding it difficult to meet ever-increasing insurance premiums.

This program would provide an option for school districts. They could continue to purchase insurance coverage from private vendors, or they could purchase state casualty insurance. The state option would provide 80 percent coverage of loss for a school district and 20 percent deductible. The 20 percent deductible in liability insurance could be paid back in the form of a loan extended for a period of time. This program would reduce premiums and taxes substantially. In the area of casualty insurance, the state would provide 60 percent coverage for loss due, for example, to fire; 40 percent would be an extended loan at a lower interest rate. Since the **deductibles are large**, the insurance premiums would be reduced substantially. In the event of a loss, the school district would still have the opportunity to secure a low interest loan to make up the difference.

The purpose of the insurance program is to make sure that insurance is **available** at the **most competitive rate** and to provide a partnership relationship between the state and local school districts in **covering insurance losses.**

B. Insurance losses in Montana also can be controlled by the education building and insurance fund program. The state would limit its liability exposure for insurance at whatever is established through the actuarial process and/or by the education building and insurance fund committee. Tentatively the limitation of liability would be $1.5 million per occurrence and would be recaptured through premium payments. Even though there is a risk regarding insurance, the risk would be substantially reduced because the state would become much more active in eliminating potential risks of loss, whether by fire or other liability. The total risk would also be shared by the local school district. This partnership of state and local school districts will benefit the property taxpayer.

C. **Initiative 105** requires the legislature to provide **property tax relief** through legislation. The education building and insurance fund provides partial property tax relief for school boards and local taxpayers by providing low interest loans for building and capital outlay and competitive insurance premiums for casualty and liability insurance coverage.

3. Are we in fact raiding the coal trust fund in order to finance school building and insurance coverage?

No. The coal trust fund will lend the original funds to initiate and operate the education building and insurance fund. It is estimated that within 20 years, because of the payment of insurance premiums and/or rates of interest on loans, the fund would become self-sustaining. The coal trust fund would be repaid with interest. No money would be lost from the coal trust fund.

4. What are the inadequacies of the present school bonding system for school building programs?

If a school district board of trustees had the option to sell school bonds at the going market rate or to make application for a state loan, the school board would be able to secure more competitive interest rate loans without being exposed to the open market and possible future high interest rates. Financial consultation from the state would also be available. There would be flexibility in repayment. The school district would still be responsible for repayment of the entire principal of the loan but would receive a break in the repayment of interest rates depending on taxable valuation.

5. Aren't we risking substantial amounts of coal trust fund money if a school district does not repay its outstanding school bond?

No. Loans extended to schools are general obligations of the school district. A loan would not be approved by the state unless the taxpayers voted to indebt themselves. There would be minimal risk in lending money to school districts because the **full faith and credit** of individual school districts would back the indebtedness. The management of the trust fund would be with the state, but the full faith and credit of the individual school district would back the loaned amount.

6. In the event of consolidation or annexation, who would pay the outstanding school loan?

Under current consolidation law, the existing taxpayers of the old school district continue to be responsible for the bonded indebtedness of the school district, unless the taxpayers of the new district vote to assume the bonded indebtedness of the old district. Whether the issue is consolidation, annexation or abandonment of a school district, present state law provides that the taxpayers who indebted themselves are responsible for payment. The same would be true under this loan program.

7. Would this be a Montana program?

Yes. All monies would be invested for Montana by Montanans in a Montana education building and insurance fund program. The money would be retained in Montana, invested in Montana for funding the most important service provided by government: **primary and secondary education.** State participation and partnerships in this program is made more important in light of recent economic times and the need for property tax relief.

8. What other states are involved in state participation in building and insurance programs?

According to a 1981 report from the American Institute of Architects, 29 states contribute state funding toward K-12 school construction.

9. Would you increase staff at the Office of Public Instruction to administer the building loan and insurance program?

Yes. All staffing and administrative costs would be an expense of the education building and insurance fund and would be reviewed by the legislature.

H.B. 382

WHAT IT WILL DO

1. Temporarily loan coal severance tax permanent trust fund monies to enable the Office of Public Instruction to establish a perpetual loan reserve for school districts.

   a. First priority of the reserve will be to support a voluntary self-insurance program for elementary and secondary school districts.

   b. Second function of the reserve will be to provide low interest, amoritized loans for capital outlay expenditures.

2. Coal severance tax permanent trust fund monies will earn interest at a rate of 10% for the biennium and at a rate of 1% below, loan rate to schools, for the period trust monies are required to support the Educational Building and Insurance Loan Fund Program.

3. Any loss of revenue to the state will be directly passed on to property taxpayers in the form of lower interest rates and amoritized loan payments.

4. Over the first ten year period there will not be sufficient funds to either significantly affect the private bond market or proliferate school construction.

5. The insurance program is not designed to eliminate private insurance companies in Montana but rather to assure schools of adequate coverage at stable rates that can be incorporated into the school budgeting process.

   A uniform insurance program will help to provide a better understanding of what a district's insurance needs are and how those needs relate to premium and coverage.

   The local insurance agent who now has the expense of bidding and servicing policies, that may not be available next week, may find it easier to have the insurance companies coordinate coverage with the high deductible self-insurance program.

6. The long range benefits of this program will be to stabilize insurance coverage and interest rates for elementary and secondary school districts.

7. By setting limits on what a school district must pay for insurance and capital expenditure interest these areas of the underfunded lawsuit will be partially addressed.

Bill Anderson's presentation 2/9/87

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7014b/c:Jeanne2\WP:jj

VISITOR'S REGISTER

Appropriations COMMITTEE

BILL(S) 382 DATE 2/9/87

SPONSOR(S) Connelly & others

NAME	REPRESENTING	BILL NO.	SUPPORT	OPPOSE
JAMES W. BORCHARDT	STATE AUDITOR	382		
Ed Argenbright	OPI	382	X	
John Dallum	Cascade Schools	382	X	
Bill Anderson	OPI	382	X	
[illegible] Campbell	SAM	382	X	
[illegible]	State Bd. of Public Ed.	382	X	

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR VISITOR'S STATEME[NT]
IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY.