

MINUTES OF THE MEETING
NATURAL RESOURCES SUBCOMMITTEE
50TH LEGISLATIVE SESSION
HOUSE OF REPRESENTATIVES

The meeting of the Natural Resources Subcommittee was called to order by Chairman Swift on January 14, 1987 at 8:00 a.m. in Room 317 of the State Capitol.

ROLL CALL: All members were present. Also present were Carl Schweitzer, Senior Fiscal Analyst, from the Office of the Legislative Fiscal Analyst (LFA) and Sib Clack, Budget Analyst, from the Office of Budget & Program Planning (OBPP).

Tape 13A:000

DEPARTMENT OF COMMERCE:

Mr. Keith Colbo, Director, Department of Commerce, addressed the committee (EXHIBIT 1). He submitted data on "New Programs Since Fiscal Year 1984" (EXHIBIT 2).

Tape 13B:000

Montana State Lottery:

Mr. Colbo said Andy Poole, Administrator, Management Services Division, Department of Commerce, was assigned to the start-up of the state lottery in November, 1986. Mr. Poole will make the department's overview of the lottery program. Mr. Colbo said there will be no administrative level between the Lottery Division and the Director of the Department. However, there will now be two Directors in the department: the Director of the Department and the Director of the Montana State Lottery, Diana Dowling.

Mr. Poole, as an overview of the lottery program, read the "Program Description" from the Executive budget (Page S-225). He submitted a document on "Projected Revenue" for the lottery (EXHIBIT 3).

Sen. Story asked if the per capita sales could be under \$20 and keep within the perimeters of the initiative. Mr. Poole said gross per capita sales would have to be approximately \$39 per capita; and this is why legislation needs to be amended.

In response to a question from Sen. Story, Mr. Poole said per capita income is higher when a lottery first comes to a state. After about four or five months, the level drops

lower and then it is up to promotion to stabilize the level.

Sen. Story said, in the absence of the commuter faction, Montana might have a very low per capita return. Mr. Poole said this is possible.

In response to Sen. Story, Mr. Poole (513) said if the 15 percent cap for administration of the lottery is not raised to 20 percent, he thinks a lottery cannot operate in Montana. He submitted a document titled "Administrative Expenses" for operating the lottery (EXHIBIT 4).

Tape 14A:000

Carl (115) asked if changes are made in percentages, from where will the requested 5 percent revenue increase for administration come. Mr. Poole said it will come from the net revenue available for teachers' retirement; therefore, property taxes. However, if the 5 percent increase is allowed, he submits there will be no net revenue to the teachers' retirement fund.

After a brief committee discussion, Mr. Colbo (134) said the department is comfortable with the numbers used in projecting administrative needs and per capita income.

Mr. Poole submitted a document titled "Lottery Legislation Amendments" (EXHIBIT 5); and a proposed organizational chart of the lottery staff (EXHIBIT 6).

In response to a question from Rep. Manuel, Mr. Poole (205) said there is a 1.5 million dollar general fund loan available to the lottery (which became available on 1/1/87); and the department has done the paper work to draw on this fund amount to get the lottery started. The general fund will be paid back at 10 percent interest. The loan is available for one year and presumes the money should be paid back by that time.

Sen. Smith (224) asked if the legislation does not pass, and the lottery fails, is the general fund "stuck with the expenses". Mr. Poole said if the legislation is not changed to remove the cap of 15 percent for administrative costs, the lottery cannot operate over a long period of time. However, the lottery can operate for about two or three games and then go out of business. He said two or three games would be enough to pay back the loan.

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Rep. Pavlovich, from District 70, appeared before the committee in support of raising the 15 percent cap on administrative costs to 20 percent.

Mr. Poole submitted a document titled "Income/Expense Statement - Montana State Lottery" (EXHIBIT 7).

Electronic Poker: (416)

Mr. Poole, as an overview of program functions, read the "Program Description" from the Executive budget (Page S-225).

The functions of electronic poker were transferred from the Department of Revenue to the Department of Commerce. Included in that transfer were 4 FTE and an operating budget of \$212,000 in FY88 and \$214,000 in FY89. Legislation is being sought to allow an increase of up to 5 percent of the gross licensing revenue for administration of the program. One-third of the remaining revenue goes to the general fund; two-thirds goes to the county or municipality in which licensed poker machines are located.

Sen. Smith said he has received some complaints from the counties that they have not been reimbursed. Mr. Meredith said, at this point in time, the investigative functions are purely maintenance. The department only responds to complaints from the public, industry or legislators. Routine inspections are made only in the course of routine liquor inspections. However, when the computerized program is instituted, license fee collections can be dispersed more rapidly. Until that time, collections are being made on a quarterly basis.

Mr. Jon Meredith, Administrator, Investigations & Enforcement Division, Department of Revenue, was at the meeting to assist Mr. Poole because he is familiar with the program.

There was a brief committee discussion on generalities of electronic poker activities.

Tape 14B:000

Board of Horse Racing: (079)

Mr. Poole, as an overview, read the "Program Description" in the Executive budget (Page S-225). He said, due to reorganization of the Division (which happened after the budgets were submitted) and because the Board of Horse Racing is no longer a part of the Professional and

Occupational Licensing program, the department would like to reduce the appropriation request for the Board of Horse Racing by \$12,790 in FY88 and \$12,811 in FY89. This amount was previously used to pay overhead within the Professional and Occupational Licensing Bureau and is no longer needed.

Discussion:

In response to a question from Chairman Swift, Mr. Poole said the FTE for Horse Racing should be 4.78, not 5.48. (Ref. Executive budget, Page S-225).

Sen. Smith said if some of the duties involving electronic poker have been eliminated from the Department of Revenue, the committee should look at the Department of Revenue's budget when the Appropriation Committee meets.

Sib Clack (134) said OBPP removed \$53,000 from the Board of Horse Racing budget (which the Board desired to fund harness racing, should it become a reality under the jurisdiction of the Board). It is her understanding the department wants the recommendation of the subcommittee that language be included in the main appropriation bill allowing a budget amendment if harness racing begins in Montana.

Chairman Swift asked how much annual revenue has been generated from electronic poker since the activity first began in Montana. Mr. Meredith said license fees generated about 4.4 million dollars in FY86. There are approximately 2,980 machines licensed at the present time, and this appears to be a stable level.

In response to a question from Rep. Devlin, Mr. Colbo (510) said the Department of Commerce will be responsible for the electronic poker program. The Department of Commerce will, however, contract with the Department of Revenue for the investigative functions.

Sen. Smith asked if the problem of confiscation of poker machines has been worked out. Mr. Meredith said yes; however, there is one issue remaining to be resolved (and is now before the Supreme Court) regarding the seizure of some machines in eastern Montana.

In response to a question from Sen. Story, Mr. Colbo said the majority of the Board of Horse Racing wants to "get into harness racing".

Financial Division: (171)

Mr. Chris Olson, Supervisor of Auditors, Financial Division, gave the overview of the Financial Division functions (EXHIBIT 8). Mr. Fred Flanders, the new Administrator, will begin work on January 19, 1987.

Discussion:

In response to a question from Sen. Smith, Mr. Olson (257) said 28 banks were not examined in 1985; and 19 banks were not examined in 1986.

Carl (375) asked Mr. Colbo if, on the proposal for the Science & Technology Grant program for capital investment, the department will examine these loans. Mr. Colbo said the provisions do not call for an audit, but the loans might be audited under a legislative audit. Sen. Smith said he would like to see someone audit the loans - either the Governor's budget office or the LFA.

In response to committee dialogue, Mr. Olson said the experience level of the staff is inadequate to examine all banks as often as they should be examined. There are currently 15 bank examiners. There is one position vacant to accommodate current budget reductions. Of the 15 examiners, 6 have less than six months experience. The 6 newer people will require about five years training before they are able to examine all facets of an institution. With 4 percent vacancy savings applied to the budget, the position will have to remain vacant during the next bien-nium.

Sen. Boylan (445) asked the analyst to check with other states, because surrounding states have less examiners and are making more examinations than what is occurring in Montana. Mr. Olson said he has a book containing this information. Chairman Swift asked for copies for committee members.

Rep. Manuel said he thinks there should be some exceptions to vacancy savings.

In response to a question from Sen. Smith, Mr. Colbo said, in some cases the department has money to fill the positions, but cannot bring on too many examiners because there is only senior staff enough to train a few beginning examiners. He said, in the past the program has been a training program for junior bank officers, but this is not currently a problem.

Tape 15A:000

In response to a question from Sen. Story, Mr. Olson said the Federal Deposit Insurance Corporation regularly examines 73 of the 116 state-chartered banks, including 3 trust companies.

Sen. Story asked how many of these banks lost money last year. Mr. Olson said "a lot" and "not all due to bank loans".

Aeronautics Division: (022)

Mr. Mike Ferguson, Administrator, Aeronautics Division, gave an overview of the Division functions. The program is funded by a 1 cent per gallon tax on aviation fuel.

He showed an electronically-lit-board map of Montana which identified airport airway facilities. There are 61 air-to-ground communication stations; 24 non-directional radio beacons (which are electronic navigation beacons), 9 of which are instrument-approved by the federal government; there are visual navigation systems (airport strobe lights); and a system of state-owned airports (the only one served by an airline is West Yellowstone), and the others are primarily emergency and recreational landing strips (with the exception of 3 on the international boundary line between Canada and the United States).

Transportation Division: (335)

Mr. Bill Fogarty, Administrator, Transportation Division, presented an overview of Division functions (EXHIBIT 9).

A budget modification for spending authority in the amount of \$501,905 is requested. This is interest which accrues from Federal Railroad Administration (FRA) monies. These monies will be available for use on rail lines in Livingston, Plentywood-Scobey, Saco to Loring and in the Anaconda area. Projects utilizing these funds will require approval of the FRA.

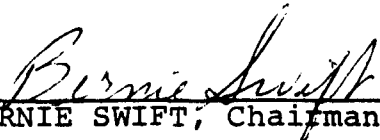
Mr. Fogarty (355) said, at the time the Executive budget was prepared, the department was reasonably certain they would lose \$100,000 in FRA monies. Since that time, they have received written notice from FRA that \$50,000 will be received in FY88 and the possibility of \$50,000 in FY89. He said he is concerned with loss of funding because it will reduce personnel in the Intermodal Commodities Bureau by 50 percent.

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In response to a question from Chairman Swift (495), Mr. Fogarty said the state stipulated, as part of the Geraldine branchline settlement, that for a period of three years from the date of settlement there would be no more branchline abandonment except for those already identified in the settlement.

Mr. Fogarty's overview included information on the McCarty Farms litigation; federal legislation aimed at restoring equality between the shipper and the railroad industry; and Interstate Commerce Commission Ex Parte proceedings (EXHIBIT 9).

ADJOURNMENT: There being no further business, the meeting adjourned at 11:45 a.m.


BERNIE SWIFT, Chairman

DAILY ROLL CALL

NATURAL RESOURCES

SUBCOMMITTEE

DATE January 14, 1987

[illegible]

EXHIBIT 1
DATE 1/14/87
HB Commerce
Dept.

50TH LEGISLATIVE SESSION
BUDGET SUMMARY PRESENTATION
JANUARY 1987

OPENING REMARKS

BEFORE I DISCUSS THE DEPARTMENT, I'D LIKE TO TALK BRIEFLY ABOUT THE ECONOMY OR TO USE THE CATCH PHRASE IN VOGUE THESE DAYS--OUR BUSINESS CLIMATE.

THESE ARE DIFFICULT TIMES FOR ALL OF US. AT LEAST 20 OTHER STATES ARE FACING BUDGET PROBLEMS SIMILAR TO OUR OWN.

DIFFICULT FOR YOU AS LEGISLATORS.

DIFFICULT FOR BUSINESS

AND, DIFFICULT FOR STATE GOVERNMENT--IT AFFECTS OUR ABILITY TO DELIVER SERVICES.

YET, THAT IS WHAT WE MUST DO WITH THE RESOURCES AVAILABLE TO US.

AND, IN SOME REGARDS THEY ARE CONSIDERABLE.

- I HAVE TALENTED, DEDICATED STAFF--PEOPLE IN THE BEST PUBLIC SERVICE MOLD.

- THEY ACCOMPLISH QUITE A BIT WITH THE LIMITED FINANCIAL RESOURCES WE HAVE.

- AND, OUR FINANCIAL RESOURCES ARE LIMITED.

YET WE CONTINUE TO SPONSOR OR PARTICIPATE IN CONFERENCES AND SEMINARS AND WRITE ARTICLES, GIVE SPEECHES AND INTERVIEWS THAT DISCUSS MAJOR PUBLIC POLICY ISSUES FACING THE STATE.

MY MAJOR CONCERN, IF THERE IS ONE THING WRONG WITH THE BUILD MONTANA PROGRAMS, IS THAT WE CANNOT DO ENOUGH.

EVEN SO, IN THE LAST 18 MONTHS ALONE, I HAVE GIVEN MORE THAN 80 SPEECHES, NUMEROUS INTERVIEWS, WRITTEN ARTICLES AND OTHERWISE PARTICIPATED IN EFFORTS TO MOVE THE ECONOMIC DEVELOPMENT MESSAGE ACROSS THE STATE AND, IN TURN, TO HEAR THE CONCERNS OF MONTANANS.

OF THE 132 SPEECHES THE GOVERNOR GAVE IN 1986, ECONOMIC DEVELOPMENT WAS A SIGNIFICANT PART OF 58.

I SUPPOSE THE TENDENCY TO LOOK FOR A SCAPEGOAT IS ONLY NATURAL--BUT NOW IS CERTAINLY NOT THE TIME.

WE REPRESENT YOUR HOPE--THE ONE PLACE WHERE STATE GOVERNMENT CAN MAKE A DIFFERENCE.

GRANTED, SOME CHANGES ARE IN ORDER.

FIRST WE NEED TO UNDERSTAND THAT OUR ECONOMY IS CHANGING--OR HAS ALREADY CHANGED.

AND, A VITAL STATE ECONOMIC DEVELOPMENT EFFORT MUST BE ABLE TO RESPOND APPROPRIATELY....NOW MORE THAN EVER.

WE NEED TO DECIDE WHAT IS BEST FOR MONTANA.

AND WHAT IS ESSENTIAL IS THE UNDERSTANDING THAT WE NEED LONG-TERM, FUNDAMENTAL SUPPORT FOR ECONOMIC DEVELOPMENT.

IN PRACTICE, BUSINESSES WANT SOME COMBINATION OF MINIMAL CONSTRAINTS AND MAXIMUM SUPPORTS.

THE MIX VARIES ACCORDING TO THE NATURE AND SIZE OF THE BUSINESS--WHETHER IT IS STARTING UP, EXPANDING OR RELOCATING.

SO I URGE YOU TO BE VERY CAREFUL WHEN TALKING ABOUT BUSINESS CLIMATE--IT MEANS SOMETHING DIFFERENT TO EVERYONE YOU TALK TO.

WHAT WE SHOULD TALK ABOUT IS PRIORITIES.

AND, A STATE' PRIORITIES IN CREATING A VITAL PRIVATE SECTOR ARE TO FACILITATE CHANGE AND TO PROVIDE SUPPORTS THAT ARE IMPORTANT TO BUSINESS.

I THINK THE DEPARTMENT OF COMMERCE FITS INTO THAT DEFINITION.

THERE ARE, UNFORTUNATELY, NO EASY ANSWERS TO OUR CURRENT ECONOMIC DILEMMA.

I DON'T BELIEVE THAT ANY SINGLE FACTOR--WHETHER IT BE TAXES, REGULATIONS, EDUCATION OR THE INDIVIDUAL EFFORTS OF THE DEPARTMENT OF COMMERCE--IS GOING TO CHANGE OUR ECONOMIC FUTURE BY ITSELF.

BUT THERE ARE ISSUES THAT NEED TO BE ADDRESSED AND THE DEPARTMENT HAS NOT IGNORED THEM:

THE GOVERNOR'S COUNCIL ON ECONOMIC DEVELOPMENT, FOR EXAMPLE, TACKLED THE ISSUES OF

- AG DEBT,
- INSURANCE LIABILITY AND TORT REFORM, AND
- TAXES AS THEY RELATE TO BUSINESS CLIMATE

ALL WITH THE ASSISTANCE OF THE DEPARTMENT.

I WOULD VENTURE TO SAY THAT THERE IS NO SINGLE ITEM OF ECONOMIC CONCERN, WHETHER IT BE OF THE CHAMBER, THE LIABILITY COALITION OR OTHER PRIVATE SECTOR ORGANIZATIONS, THAT HASN'T BEEN CONSIDERED.

WHAT WE FACE IS NOT A SINGLE ISSUE PROBLEM.

IT IS MORE COMPLEX.

BUT AT THE RISK OF BEING REPETITIVE, I CAN'T EMPHASIZE ENOUGH THE NEED FOR LONG-TERM, DEPENDABLE SUPPORT FOR ECONOMIC DEVELOPMENT AND CHANGES IN THOSE FACTORS THAT CONTRIBUTE TO OUR OVERALL ECONOMIC WELL BEING.

THE FACT IS, WE ARE FUNDED AT NO WHERE NEAR THE LEVEL RECOMMENDED BY THE MONTANA ECONOMIC DEVELOP PROJECT, CONDUCTED IN THE EARLY 1980s.

YET, JUST THE OTHER DAY I WAS SURPRISED TO HEAR JUST HOW MUCH WE HAVE GROWN IN THE PAST FEW YEARS...IF YOU BELIEVE WHAT YOU HEAR IN THE HALLS WE HAVE GROWN UNCONTROLLABLY.

LET ME GIVE YOU THE FACTS:

EMPLOYEES

COMMERCE WAS CREATED IN THE 1981 SESSION:

THE FIRST YEAR OF OPERATION--FISCAL 1982--WE HAD 172 FTE

BUILD MONTANA PROGRAMS REPRESENT (I-95) 17
(MEDB-7, HFA-3, S&T-2, PRO & BA-4, GCED-1)

LEGISLATION ADDED 8

(HARD ROCK-2, TRANS.-1, BOARDS-4, PUB. CONT.-1) 77

GOVT. REORGANIZATION ADDED 69

(CEIC-4, LOCAL GOVT.-38, BLDG. CODES-27)

WORKLOAD INCREASES ADDED 12

(SECTION 8-1, Bd. OF HOUSING-4,
BK. EX.-2, DP-2, LEGAL-1, DD-1, BUD OF.-1)

FISCAL 1986 ACTUAL FTE LEVEL 278

FISCAL 88-89 CURRENT LEVEL REQUEST 267 -11

DON'T ENVY LEGISLATIVE TASK AHEAD.

EXPERIENCE IN BUDGET OFFICE/GOVERNOR'S OFFICE/OTHER
DEPARTMENTS, BUT THIS MAY BE THE MOST DIFFICULT LEGISLATIVE
SESSION IN HISTORY.

WELCOME OPPORTUNITY TO PRESENT THE BUDGET OF THE DEPARTMENT
OF COMMERCE.

PLEDGE FULL COOPERATION AND INFORMATION OF THE DEPARTMENT.

CHARACTERIZE DEPARTMENT (ORGANIZATIONAL CHART)

1. DEPARTMENT PERHAPS BEST KNOWN FOR ITS "BUILD MONTANA"
PROGRAMS--BUT THAT ISN'T THE SUM OF THE DEPARTMENT.

2. IF YOU LOOK AT ECONOMIC DEVELOPMENT EFFORTS VS. REST OF DEPARTMENT
 - EMPLOYEES: 5 TIMES IN OTHER PROGRAMS THAN IN ECONOMIC DEVELOPMENT
 - BUDGET: 6 TIMES THE BUDGET IN OTHER PROGRAMS
3. THERE ARE A FEW ITEMS I'D LIKE TO HIGHLIGHT FOR YOU THAT APPLY TO ALL DEPARTMENT PROGRAMS:
 - BUDGET REDUCTIONS
 - INDIRECT COSTS
 - COMPUTER ACQUISITION
 - COOPERATION WITH OTHER DEPARTMENTS
 - DEPARTMENT ACCOUNTABILITY

WE WANT YOU TO UNDERSTAND OUR MISSION AND TO BE COMFORTABLE WITH OUR GOALS AND ACCOMPLISHMENTS.

4. BIENNIAL REPORT DISTRIBUTED LAST WEEK
 - PROVIDES YOU WITH A SUMMARY OF OUR EFFORTS--MAY BE HELPFUL TO USE IT AS WE MAKE OUR PRESENTATIONS.
5. WILL BRIEFLY CHARACTERIZE DEPARTMENT BUDGET AND TOUCH ON SOME POINTS OF PARTICULAR INTEREST WITHIN DIVISION BUDGETS.
 - DIVISION ADMINISTRATORS WILL PROVIDE MORE DETAILED PRESENTATIONS.
 - WILL PROCEED IN ORDER THEY WILL TESTIFY BEFORE YOU.

CHARACTERIZE BUDGET

1. SUMMARY BUDGET (1st CHART)
 - SHOWS ACTUAL 1986 EXPENDITURES;

- APPROPRIATED EXPENDITURES IN FISCAL 1987 AND;
- PROPOSED EXPENDITURES IN FISCAL 1988 AND 1989.

(HIGHLIGHTS)

- ALL PROGRAMS ARE BASICALLY CURRENT LEVEL;
- GENERAL FUND REDUCTIONS / TOURISM PROMOTION;
- PROGRAM MODIFICATIONS / LOTTERY;
- CURRENT LEVEL REDUCTION / TOURISM AS CURRENT LEVEL

 ACTUAL '86 TO PROP. '88 = DECREASE OF 11.7% (GF DECREASE OF 34%)
 ACTUAL '86 TO PROP. '89 = DECREASE OF 11.9% (GF DECREASE OF 34%)
 APPROP '87 TO PROP. '88 = DECREASE OF 5.8% (GF DECREASE OF 33%)
 APPROP '87 TO PROP. '89 = DECREASE OF 6.0% (GF DECREASE OF 33%)

2. ECONOMIC DEVELOPMENT BUDGET (2ND CHART)

- OUTLINES BUDGET OF THOSE DIVISIONS COMMONLY IDENTIFIED AS HAVING ECONOMIC DEVELOPMENT PROGRAMS;

(HIGHLIGHTS)

- ONE CHANGE IS THE PROPOSED FUNDING SHIFT FOR TRAVEL PROMOTION;
- MODIFICATIONS / NO GENERAL FUND;
- FOCUS / EXISTING BUSINESS;
- MODIFICATIONS: SCIENCE & TECH. AND SBDC DO JUST THAT.

 ACTUAL '86 TO PROP. '88 = GF DECREASE OF 52.0%
 ACTUAL '86 TO PROP. '89 = GF DECREASE OF 52.6%
 APPROP '87 TO PROP. '88 = GF DECREASE OF 50.0%
 APPROP '87 TO PROP. '89 = GF DECREASE OF 50.4%

3. INVESTMENT DIVISION CONCEPT

- ONE FINAL INTRODUCTORY COMMENT ON A PROPOSAL NOT REFLECTED IN BUDGET REQUEST BUT ONE YOU HAVE PROBABLY HEARD OF;
- INVOLVES TRANSFER AND COMBINING OF SEVERAL BOARDS.

DIVISION SUMMARIES

A. BUSINESS REGULATION AND LICENSING DIVISION

1. COMMERCE OFTEN VIEWED AS BEING A BUSINESS SERVICE/SUPPORT ORGANIZATION AND ADVERSARY ORGANIZATION ALL AT THE SAME TIME
2. WE DON'T AGREE: BELIEVE REGULATIONS ARE NECESSARY AND THAT WE DELIVER SERVICES IN A POSITIVE, PROFESSIONAL FASHION THAT SUPPORTS, NOT DETERS, ECONOMIC DEVELOPMENT
3. YET WE ARE BOUND TO RECEIVE CRITICISM FOR OUR REGULATORY EFFORTS. JUST REMEMBER:
 - WE FILL THAT ROLE BY REASON OF LEGISLATIVE ACTION;
 - AND, IN THE LAST 2 YEARS, EVERY ITEM RAISED BY THE PRIVATE SECTOR HAS BEEN RESOLVED TO THE SATISFACTION OF BOTH THE BUSINESS AND THE DIVISION.

B. FINANCIAL DIVISION

1. NEEDS SERIOUS LEGISLATIVE ATTENTION IN RESPONSE TO THE CURRENT FINANCIAL CLIMATE. BANKS STRESSED.
2. CITIZENS BEING EXPOSED TO DIFFICULT FINANCIAL PROBLEMS IF WE CANNOT RESPOND ON TIME IN OUR AUDITS AND INTERACTION WITH THE BANKING COMMUNITY. BANK CLOSURE IN COLUMBIA FALLS.
3. BANKS ARE PAYING FOR THE SERVICE;
4. BANKS WANT THE SERVICE;

5. MOST IMPORTANTLY, THE PUBLIC DESERVES IT;
6. WE HAVE INTRODUCED A BILL TO EXTEND AUDIT TIME LIMITS.

C. AERONAUTICS DIVISION

1. DIVISION PROMOTES A SAFE AND EFFICIENT AVIATION SYSTEM IN THE STATE.
2. PERHAPS MOST VISIBLE IS THE SEARCH AND RESCUE EFFORTS.
3. CASH FLOW PREDICTIONS FOR AERONAUTICS ACCOUNT:
 - HISTORICAL CASH FLOW PROBLEMS;
 - WILL MAKE IT THROUGH THIS SESSION;
 - WILL REQUIRE CONSIDERATION OF REVENUE NEXT SESSION.

D. TRANSPORTATION DIVISION

1. AVAILABLE AND AFFORDABLE TRANSPORTATION IS CRUCIAL TO MONTANA BUSINESSES.
2. LOSS OF 3 FTE WILL AFFECT BOTH THE LITIGATION AND COMMODITIES BUREAUS.
3. STATUS OF McCARTY FARMS LITIGATION.
4. TRENDS IN RAIL TRANSPORTATION--SHORT LINE SALES.

E. BUSINESS ASSISTANCE DIVISION

1. PROVIDES SERVICES TO BUSINESSES, LOCAL GOVERNMENTS, PRIVATE AND PUBLIC LDOs, INDIVIDUALS AND INTEREST GROUPS.
2. LOCAL SUPPORT--AN IMPORTANT EMPHASIS BECAUSE WE BELIEVE THAT MUCH ECONOMIC DEVELOPMENT TAKES PLACE AT THE LOCAL LEVEL.
 - LEADS (BITTERROOT VALLEY, WOLF POINT/POPLAR, BUTTE AREA, FLATHEAD VALLEY). MT. AMBASSADORS, LDOs.

- CERTIFIED COMMUNITIES--MT. AMBASSADORS.

3. CHARACTERIZE B.A. BUDGET--STATIC.

- REMAINS WELL BELOW LEVEL RECOMMENDED BY ORIGINAL ECONOMIC DEVELOPMENT PROJECT.
- HAVE CHOSEN TO EMPHASIZE THE PROGRAMMATIC ASPECTS AS OPPOSED TO THE PUBLIC RELATIONS OPPORTUNITIES.

4. SMALL BUSINESS DEVELOPMENT CENTER (SBDC):

- NEW PROPOSAL;
- TRIANGULATION OF EFFORT (EDUCATIONAL COMMUNITY, LOCAL DEVELOPMENT ORGANIZATIONS AND STATE GOVERNMENT);
- THE LEAD FOR STATE GOVERNMENT WOULD BE IN THE BUSINESS ASSISTANCE DIVISION;
- WILL PROVIDE INCREASED TECHNICAL ASSISTANCE FOR SMALL BUSINESS GROWTH, EXPANSION, INNOVATION, INCREASED PRODUCTIVITY AND MANAGEMENT IMPROVEMENT;
- IMPORTANT BECAUSE MOST BUSINESS IN MONTANA IS SMALL BUSINESS;
- DESIGNED TO HELP STRENGTHEN, DIVERSIFY AND STABILIZE THE STATE'S ECONOMY;
- MONTANA IS ONLY ONE OF TWO STATES WITHOUT THE PROGRAM.

5. INTERNATIONAL TRADE OFFICE:

- FUNDED FROM PRIVATE SECTOR INTERESTS;
- COMPETITION FROM OTHER STATES;
- MINIMAL EFFORT TO BEGIN WITH.

6. NEW ADMINISTRATOR--CAROL DALY--MADE SOME POSITIVE CHANGES IN ORGANIZATION AND FOCUS.
7. HOPE THE REPORT WE PREPARED AT YOUR REQUEST WAS USEFUL.
8. IT IS OUR INTENT TO RELEASE UPDATES PERIODICALLY, BUT ONLY IF THEY ARE USEFUL TO YOU.

F. MONTANA PROMOTION DIVISION

1. ONE OF MONTANA'S GROWTH INDUSTRIES:
 - DESCRIBED IN THE PRESS AS ONE OF OUR ECONOMIC "BRIGHT SPOTS"--AND IT'S TRUE.
 - NONRESIDENT TOURISM HAS GROWN BY 3-4 PERCENT A YEAR FOR THE PAST 5-6 YEARS.
 - EXPENDITURES BY NONRESIDENT TOURIST ARE EXPECTED TO REACH \$475 MILLION BY THE END OF THIS FISCAL YEAR.
2. CHANGE IN BUDGET--OCCUPANCY TAX VS. GENERAL FUND.
 - MAJOR EFFORT THAT MUST BE SUPPORTED OR G.F. RESTORED.
3. THE ADDITIONAL DOLLARS WILL MOVE MONTANA INTO THE MIDDLE IN TERMS OF DOLLARS SPENT BY STATES.
4. THE DIVISION IS POISED AND ABLE TO EXPAND ITS PROGRAM EFFORTS:
 - WE KNOW WHAT OUR BEST MARKETS ARE;
 - WE KNOW WHAT MEDIUMS WE WOULD LIKE TO USE.
5. REALITY IS THAT IF WE WANT MORE PEOPLE TO KNOW ABOUT MONTANA AND TO VISIT WE NEED TO INVEST IN TOURISM PROMOTION.
6. THE RETURN ON OUR INVESTMENT WILL BE REALIZED THROUGH INCREASED MARKETING, GROUP TOURS AND MOTION PICTURE AND TV ACTIVITY...PLUS YOU GET \$1.2 MILLION PER YEAR RETURNED TO THE GENERAL FUND.

G. MONTANA SCIENCE AND TECHNOLOGY ALLIANCE

1. NEW PROGRAM TO MONTANA, ENJOYING A FAIR AMOUNT OF SUCCESS--A CREDIT OF THE LAST LEGISLATIVE ASSEMBLY.
2. BELIEVE PROGRAM IS WORTHY OF ADDITIONAL INFUSION OF DOLLARS FOR PROGRAM EXPANSION.
3. SEPARATE BILL:
 - VENTURE CAPITAL NEEDS;
 - MEETING LATER THIS WEEK - BOB WILLIAMS;
 - WHITEFISH MEETING ON VENTURE CAPITAL.

H. OFFICE OF ECONOMIC ANALYSIS

1. PROVIDES INFORMATIONAL AND ANALYTICAL BASIS OUT OF WHICH DEPARTMENT'S POLICIES EMERGE.
2. ALSO ASSIGNED SPECIAL PROJECTS TO THIS DIVISION:
 - GOVERNOR'S COUNCIL ON ECONOMIC DEVELOPMENT;
 - TRANSITION TASK FORCE SUPPORT;
 - NATURAL RESOURCE ANALYSIS AND RECRUITMENT.

I. LOCAL GOVERNMENT ASSISTANCE DIVISION

1. THE DIVISION PROVIDES TECHNICAL AND FINANCIAL ASSISTANCE TO LOCAL GOVERNMENT UNITS.
2. ONE PROBLEM AREA: LGBG SHORTFALL:
 - PREVIOUS STATUS--FUNDED AT 52% FOR '88 AND 54% FOR '89;
 - SINCE THE SUPREME COURT RULING FOR LEWIS AND CLARK COUNTY ALLOCATION IS NOW AT 50% AND 53%;
 - HAVE PRO-RATION AUTHORITY AND WILL LIKELY HAVE TO EXERCISE IT;

- LFA HAS RECOMMENDED FULL FUNDING;
- IF DECISION IS MADE TO INCREASE TAXES--FINE;
- BUT, WE MUST OPERATE AS ECONOMIC CONDITIONS DICTATE.

J. MONTANA ECONOMIC DEVELOPMENT BOARD

1. SOME CHANGES WILL BE MADE AS A RESULT OF FEDERAL TAX LEGISLATION--WHICH ALSO AFFECTS THE ACTIVITIES OF A COUPLE OF OTHER BOARDS.
2. INTERCAP (NEW PROGRAM)
 - EXPECT TO ISSUE \$10 MILLION IN BONDS IN LATE FEBRUARY;
 - 25 POTENTIAL USERS;
 - PROGRAM WILL PROVIDE 5-YEAR FINANCING FOR SUCH THINGS AS EQUIPMENT, VEHICLES AND MODEST BUILDING IMPROVEMENTS FOR CITIES, TOWNS AND COUNTIES.

K. MANAGEMENT SERVICES/DIRECTOR'S OFFICE

1. PROVIDES SUPPORT SERVICES FOR THE ENTIRE DEPARTMENT.
2. WORK LOAD HAS INCREASED SIGNIFICANTLY IN THE PAST SEVERAL YEARS.
3. FUNDING FOR SERVICES.

L. LOTTERY DIVISION

1. PASSED BY LEGISLATIVE REFERENDUM IN NOVEMBER.
2. REQUIRES AN OPERATIONAL LOTTERY BY JULY 1, 1987.
3. BETWEEN ELECTION AND ANNOUNCEMENT OF LOTTERY DIRECTOR AND COMMISSION THE DEPARTMENT DID CONSIDERABLE GROUNDWORK.

4. GOVERNOR ANNOUNCED THE 5-MEMBER COMMISSION AND THE DIRECTOR, WHOM YOU ALL KNOW, DIANA DOWLING, LATE IN DECEMBER AND SHE HAS OFFICIALLY ASSUMED HER DUTIES.
5. COMMISSION HAS MET ONCE AND WILL MEET AGAIN THIS THURSDAY.
6. THE DIRECTOR, MYSELF, AND A NUMBER OF THE COMMISSIONERS HAVE ALREADY ATTENDED SEVERAL MEETINGS AND A TRAINING SESSION ON SETTING UP A LOTTERY.
7. WE STILL HAVE MUCH TO DO, BUT I'M CONFIDENT WE WILL MEET OUR DEADLINES.

CLOSE

1. MAKE A FEW CLOSING REMARKS.
2. TOP CONCERNS ARE SERVICE AND ACCOUNTABILITY.
3. WE WILL PROVIDE NEEDED SERVICES AND ARE ACCOUNTABLE--YET WE ARE ALSO AWARE THAT MANY OF OUR PROGRAMS' ACCOMPLISHMENTS ARE DIFFICULT TO MEASURE.
4. IMPORTANT THAT WE AGREE ON MEASUREMENTS.
5. WE HAVE FEW PLANS TO SIGNIFICANTLY CHANGE PROGRAMS (I HAVE HIGHLIGHTED THE FEW).
6. EFFORTS OF THE DOC ARE IN FOCUS, ON LINE AND APPROPRIATE.
7. THEY ARE ACCOMPLISHING WHAT THEY SHOULD AND CAN AT THE LEVEL OF FUNDING THAT WE HAVE TO WORK WITH.
8. THERE ARE "BUSINESS CLIMATE" PROBLEMS THAT NEED ADDRESSING BUT OVER WHICH THE DEPARTMENT HAS LITTLE OR NO CONTROL.
 - WORKERS' COMPENSATION/LIABILITY INSURANCE ISSUES/UNITARY TAX.

9. ANSWERS TO THOSE THORNY ISSUES INVOLVE POLICY DECISIONS THAT MUST FLOW FROM YOU OR OTHERS. THEY ARE NOT EASY AND THEY WON'T HAVE INSTANT RESULTS NOR WILL YOU QUANTIFY THE RESULTS.
10. I BELIEVE THAT WE WILL TAKE SOME POSITIVE STEPS THIS LEGISLATIVE SESSION REGARDING THOSE SITUATIONS AND OTHERS. THE PROCESS I ENVISION, HOWEVER, IS INCREMENTAL--LONG-TERM.
11. CONSEQUENTLY, NONE OF US CAN EXPECT OVERNIGHT CHANGES. WE IN THE DEPARTMENT POSSESS, AND HOPE YOU SUPPORT, THE LONG-TERM COMMITMENT NECESSARY TO ENSURE THAT OUR EFFORTS AND PROGRAMS REMAIN SUCCESSFUL.
12. WE ALL WANT A VITAL, VIBRANT ECONOMY FOR MONTANA AND ITS CITIZENS.
13. IF WE CAN SUSTAIN OR INCREASE OUR COMMITMENT--DON'T LOSE OUR COLLECTIVE NERVE--I BELIEVE WE CAN SEE THAT HOPE FOR A VIBRANT ECONOMY BECOME A REALITY.

Department of Commerce

New Programs Since Fiscal Year 1984

Building Codes Division	Montana Health Facility Authority
Local Government Services Division	Montana Economic Development Board
Census and Economic Information	Board of Athletics
Public Contractors Licensing	Polygraph Examiners
Office of Economic Analysis	Board of Social Workers
Council on Science and Technology	Board of Dentistry
Governor's Council on Economic Development	Occupational Therapists Programmers
Lottery	Tramways
Electronic Poker	

EXHIBIT 2
DATE 1/14/87
HB Commerce
Dept.

EXHIBIT 2
DATE 1/14/87
HB Commerce
Dept.

DEPARTMENT OF COMMERCE

	ACTUAL 86	APPROP. 87	PROP. 88	PROP. 89	MODIFIED 88	MODIFIED 89
FTE	278.95	272.05	267.82	268.82	52.28	53.28
Personal Services	\$7,039,852	\$7,470,359	\$7,532,023	\$7,538,720	\$1,294,811	\$1,327,589
Operating	5,717,484	6,409,039	8,951,107	8,916,755	4,481,515	4,459,232
Equipment	455,752	76,699	69,246	204,048	64,774	45,071
TOTAL OPERATING	13,213,088	13,956,097	16,552,394	16,659,523	5,841,100	5,831,892
Grants	42,082,425	38,237,974	32,504,687	32,288,470	3,198,510	2,724,042
Transfers	374,279	0	110,000	110,000	20,290,291	20,415,500
TOTAL DEPARTMENT	\$55,669,792	\$52,194,071	\$49,167,081	\$49,057,993	\$29,329,901	\$28,971,434
General Fund	\$7,974,789	\$7,864,510	\$5,266,843	\$5,244,498	\$15,483	\$10,483
State Special Revenue	25,251,409	23,249,562	20,788,566	21,726,897	3,353,587	3,397,760
Federal & Private Funds	18,156,701	17,717,587	18,926,398	17,987,509	858,131	339,513
Proprietary Funds	4,286,893	3,362,412	4,185,274	4,009,089	25,102,700	25,223,678
TOTAL FUNDING	\$55,669,792	\$52,194,071	\$49,167,081	\$49,057,993	\$29,329,901	\$28,971,434

Fiscal '87 included 2% and 5% reductions. Does not include McCarthy Farms supplemental.

Modified request includes 43.78 FTE and \$28.2 million per year for Lottery Division.

Department of Commerce

ECONOMIC DEVELOPMENT PROGRAMS

	ACTUAL FY86	APPROP. FY87	PROP. FY88	PROP. FY89	MODIFIED FY88	MODIFIED FY89
FTE	41.00	42.00	45.00	45.00	7.00	8.00
Business Assistance	\$ 689,497	\$ 924,173	\$ 986,692	\$ 983,219	\$ 311,340	\$ 398,770
Montana Promotion	1,471,027	1,512,906	4,929,295	5,027,013	\$0~	\$0~
Office of Economic Analysis	303,749	301,126	308,189	302,792	\$0~	\$0~
Mt. Economic Development Board	516,263	356,615	341,109	339,919	\$0~	\$0~
Health Facility Authority	117,724	119,219	124,188	123,277	\$0~	\$0~
Science and Technology Alliance	305,616	677,582	1,345,000	1,410,000	89,970	122,448
TOTAL PROGRAMS	\$3,403,876	\$ 3,891,621	\$8,034,473	\$8,186,220	\$ 401,310	\$ 521,218
General Fund	\$2,376,258	\$ 2,273,913	\$ 1,136,143	\$1,127,273	0	0
State Special Revenue	305,616	677,582	5,924,295	6,087,013	\$ 47,535	\$ 76,645
Federal and Private Revenue	277,057	640,830	690,000	690,000	281,226	339,513
Proprietary	444,945	299,296	284,035	281,934	72,549	105,060
TOTAL FUNDING	\$3,403,876	\$3,891,621	\$8,034,473	\$8,186,220	\$ 401,310	\$ 521,218

Financial Division

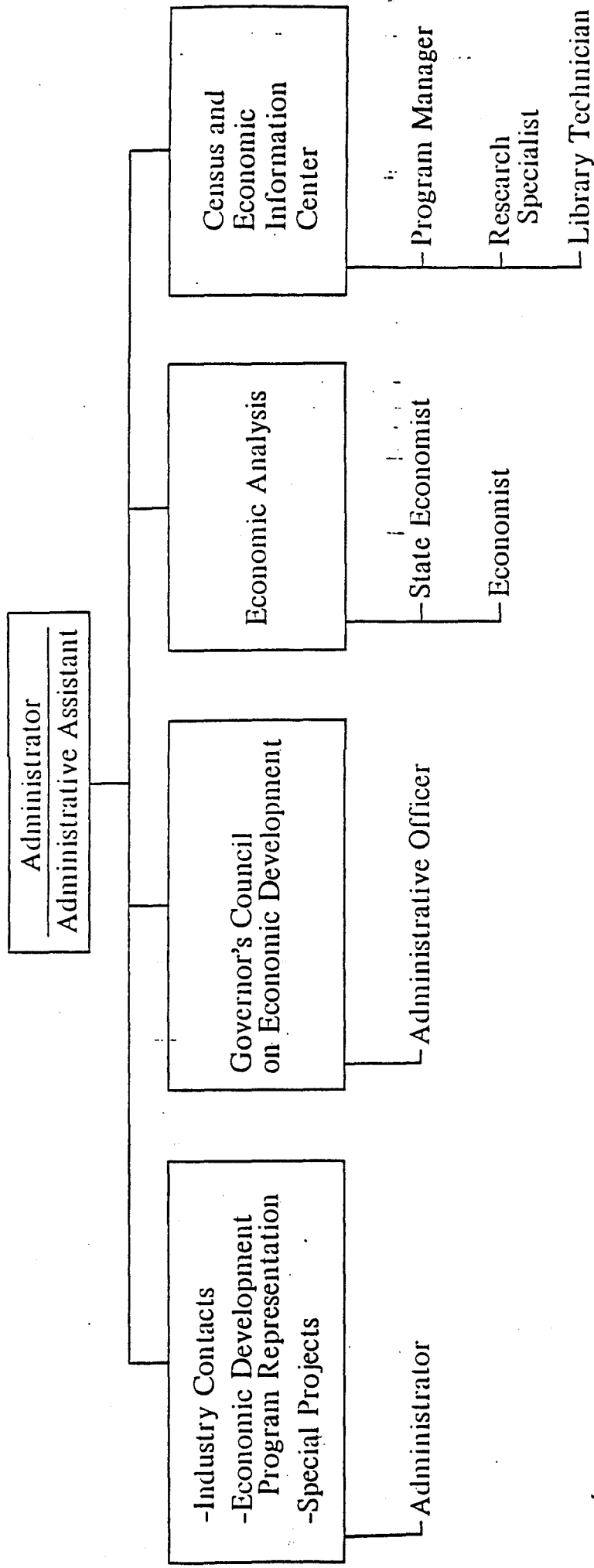
	Banks & Trust Companies		Credit Unions		Savings & Loan Associations		Consumer Loan Companies	
	1984	1985 1986	1984	1985 1986	1984	1985 1986	1984	1985 1986
AVERAGE NUMBER OF EXAMINERS	13	12 $\frac{1}{2}$ 14	$\frac{1}{2}$	$\frac{1}{2}$	-	-	$\frac{1}{2}$	$\frac{1}{2}$
NUMBER OF INSTITUTIONS	116	116 116	24	23 23	2	1 1	25	26 25
NUMBER OF EXAMINATIONS	69	63 65	18	20 18	2	1 1	25	26 25
APPROXIMATE NUMBER OF INSTITUTIONS NOT EXAMINED BY ANY AGENCY	2	19 28 18-20	1	-	-	-	-	-

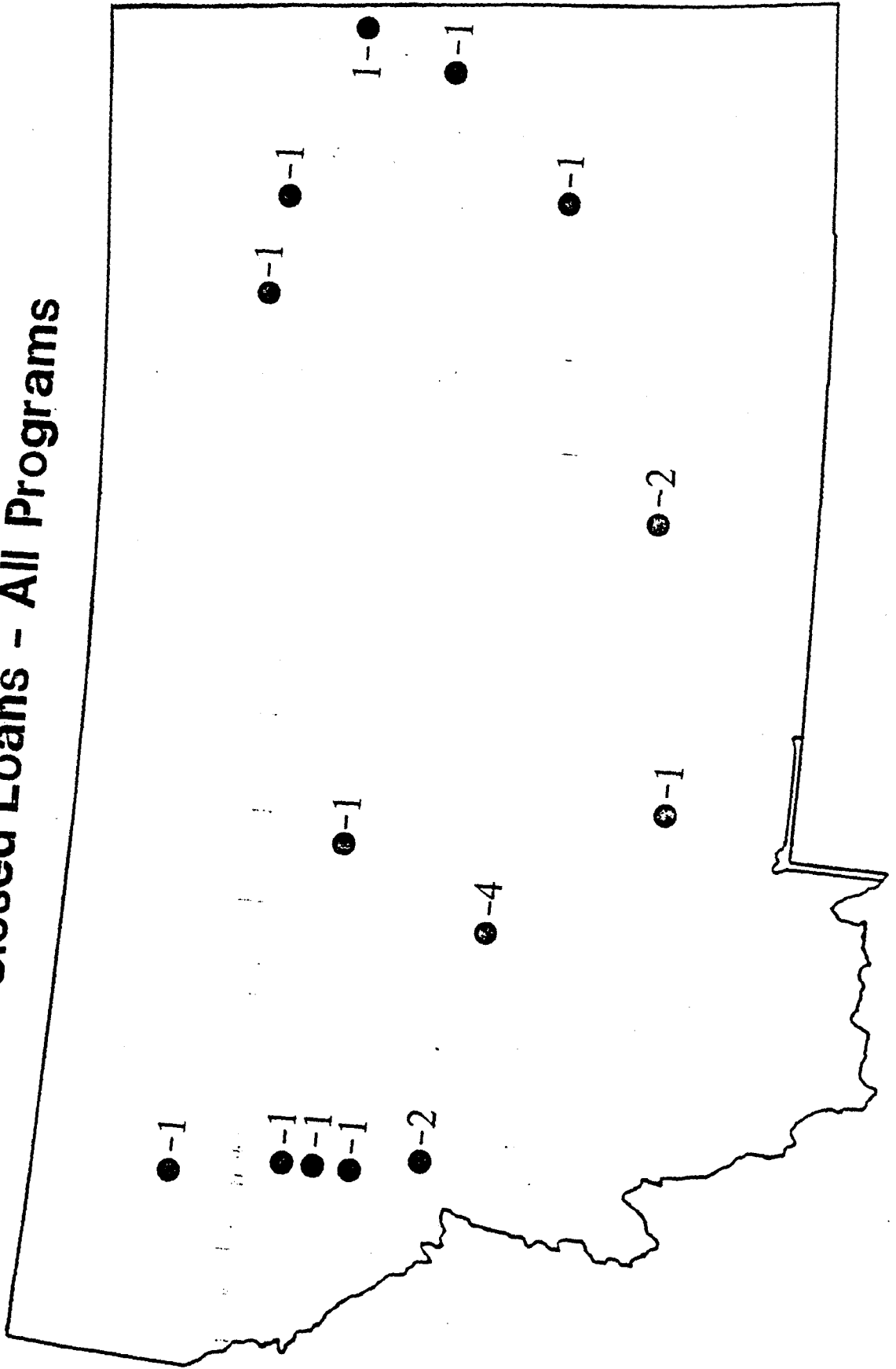
1983

The Montana Economic Development Board was examined in 1986.

Office staff during this time has been 3-1/2 people.

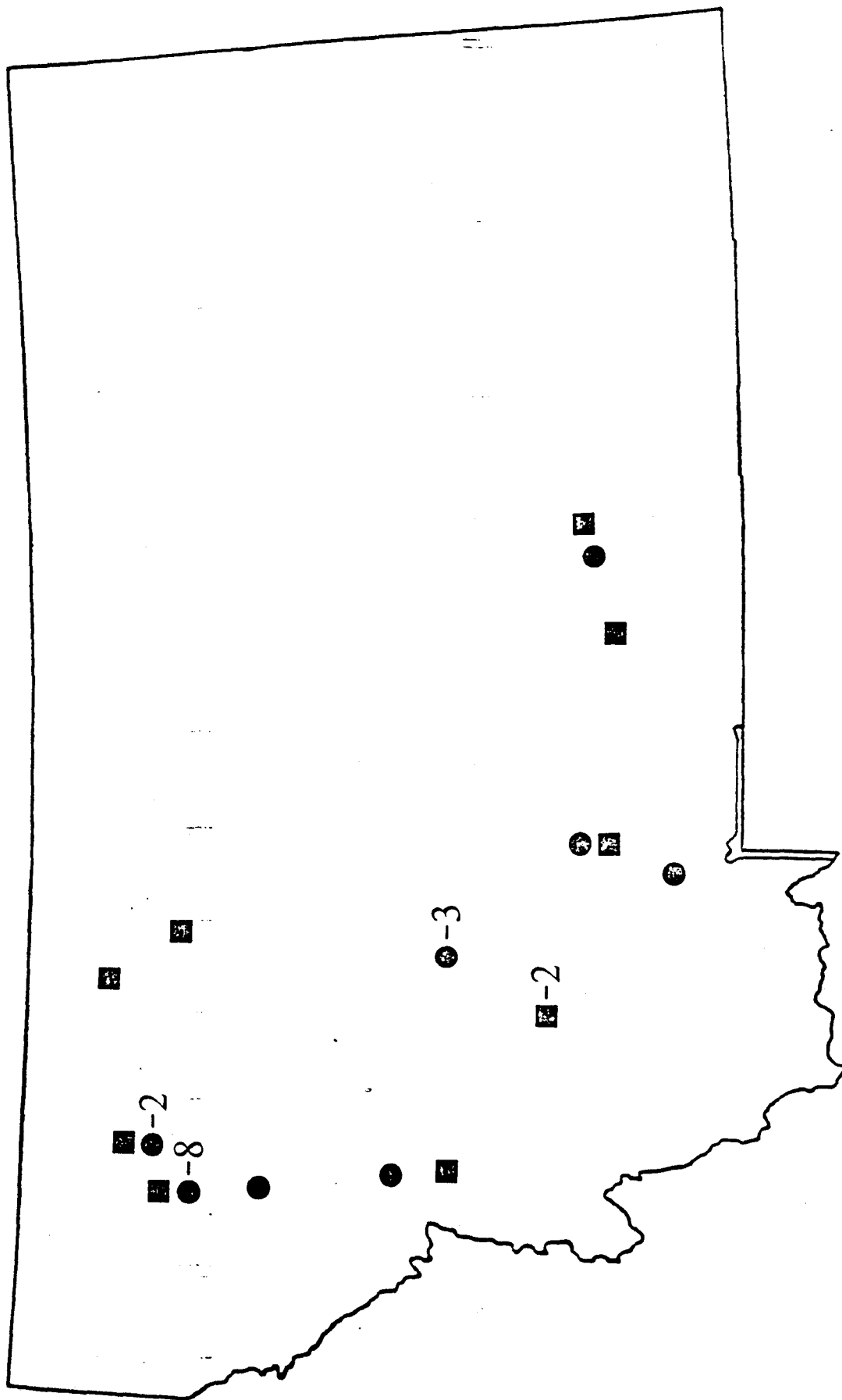
Program Functions



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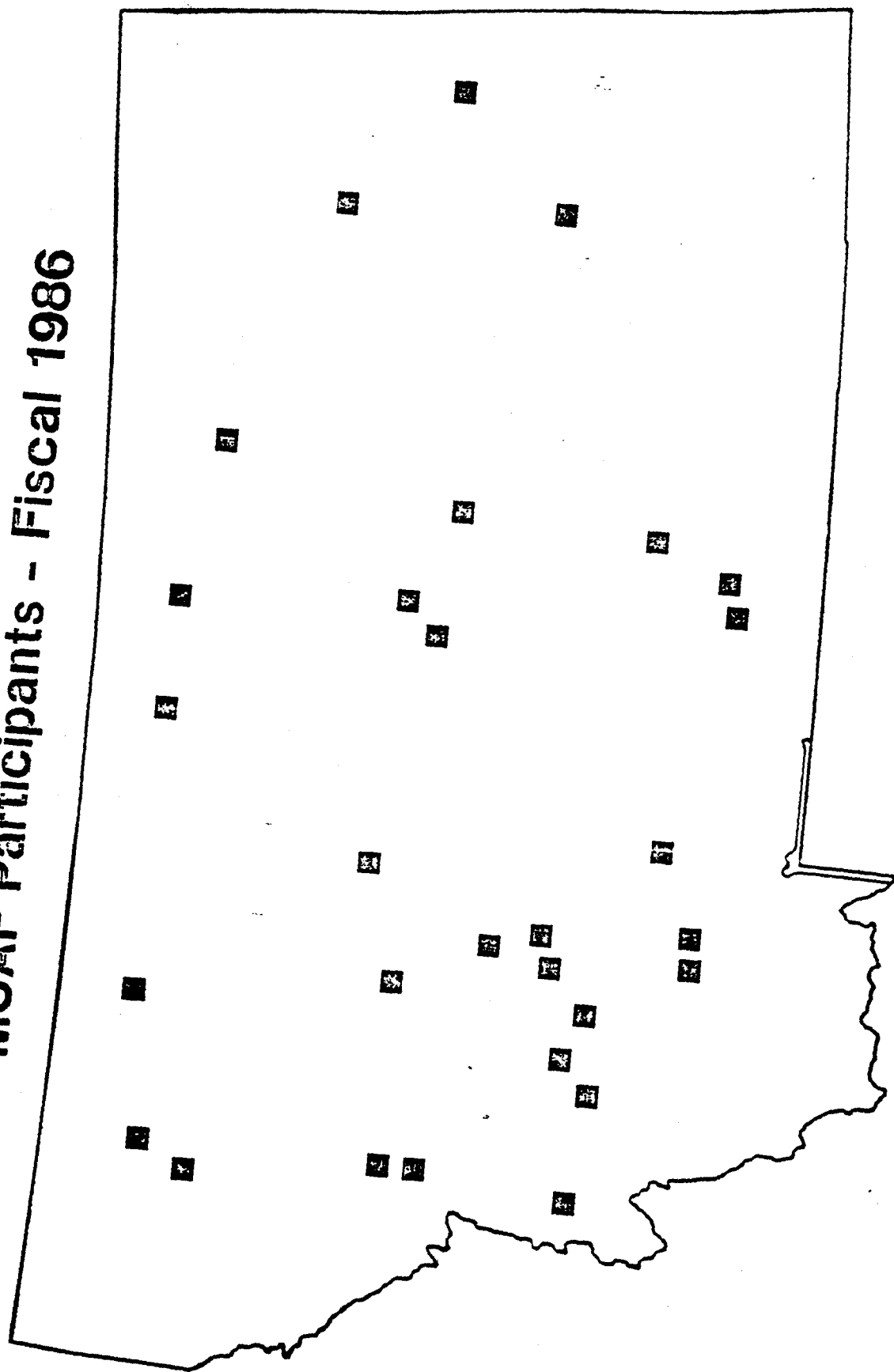
Montana Economic Development Board

- POOLED IDB PROJECTS
- STAND-ALONE IDB PROJECTS



Montana Economic Development Board

MCAF Participants - Fiscal 1986

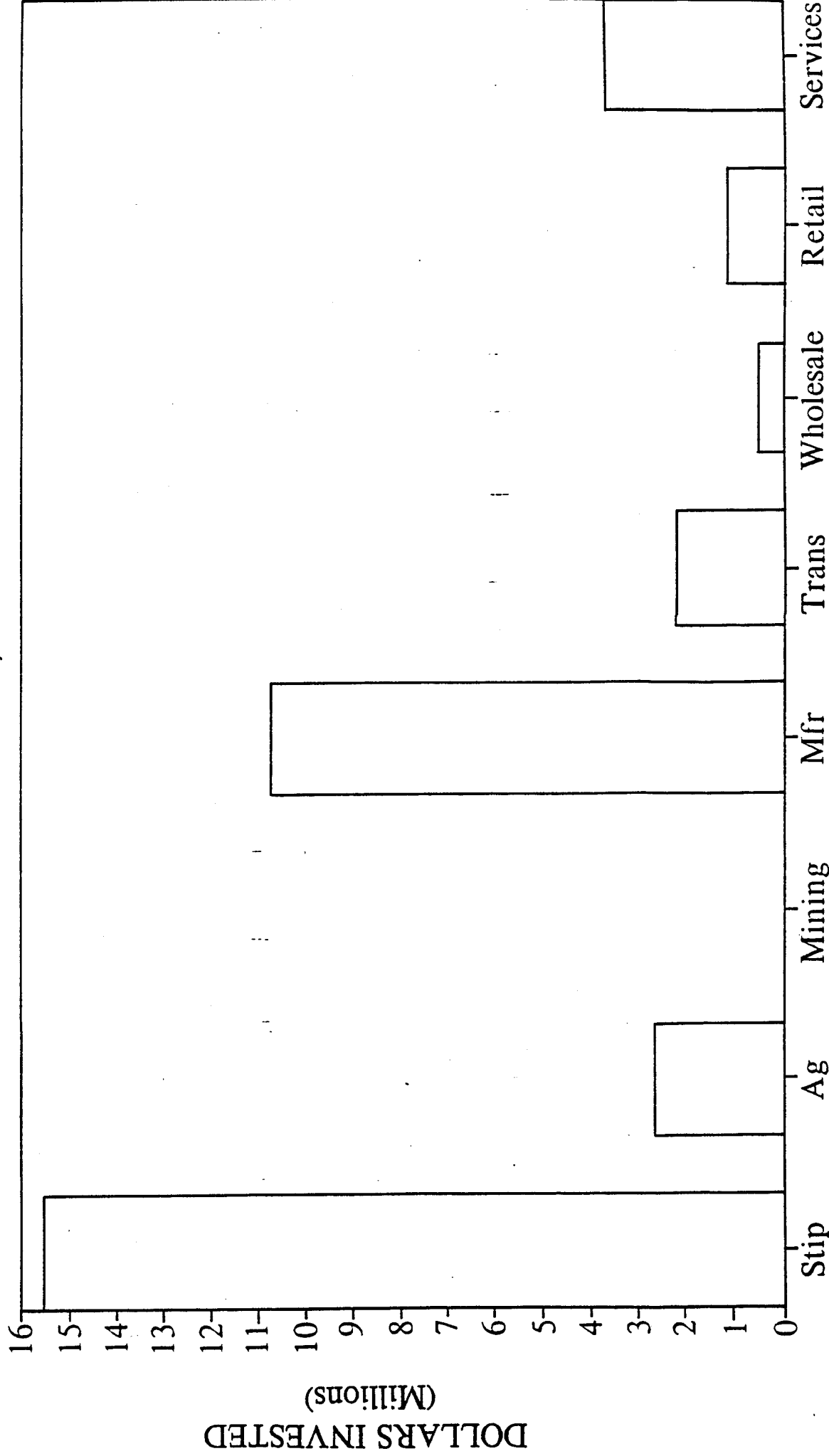


Montana Economic Development Board

COAL TAX PROGRAM

INVESTMENT BY ECONOMIC SECTOR

(As of November 30, 1986)



ECONOMIC SECTOR

Montana Science and Technology Alliance

Funding Requests by Technology Area

(As of December 15, 1986)

Technology Area	Number of Summaries	Alliance Funds Requested	Total Cost
Forestry	4	\$ 103,000	\$ 143,000
Energy	13	2,103,000	4,992,000
Agriculture	11	680,000	1,688,000
Minerals	3	450,000	6,000,000
Materials Science	2	343,000	685,000
Biotechnology	5	693,000	1,972,000
Microelectronics & Computer Science	17	2,256,000	8,306,000
Information Services	10	931,000	1,652,000
Other	5	510,000	1,020,000

Montana Science and Technology Alliance

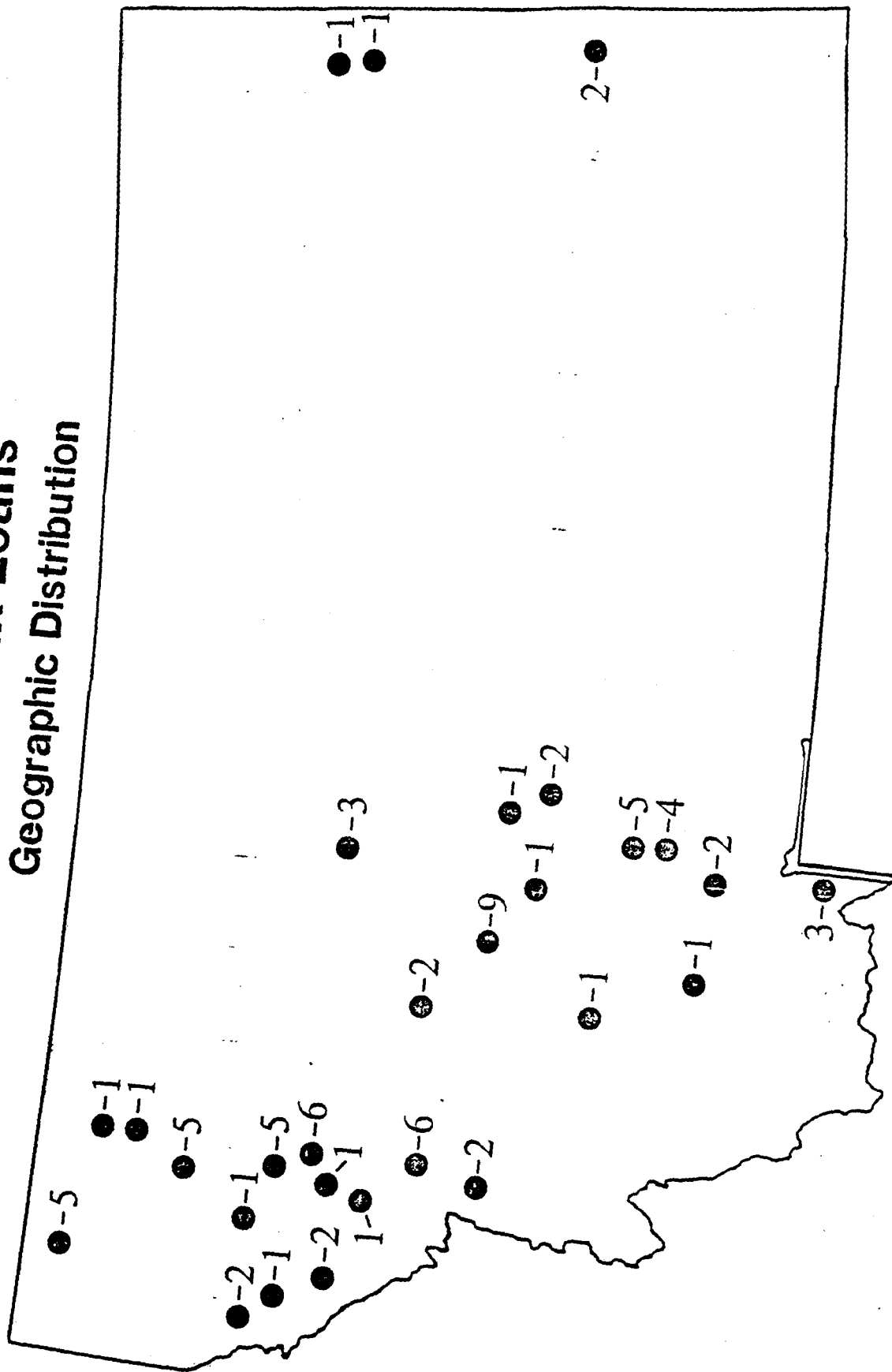
1989 Biennium Budget Proposal

	FY 1988		FY 1989	
	Current Level	Modification	Current Level	Modification
Research and Development				
Applied Research	\$ 500,000		\$ 500,000	
Centers of Excellence	378,000		440,000	
Development Assistance	150,000		150,000	
Technology Transfer	150,000		150,000	
Administrative Expenses	167,000	\$17,000	170,000	\$17,000
	<u>\$1,345,000</u>	<u>\$17,000</u>	<u>\$1,410,000</u>	<u>\$17,000</u>
Seed Capital				
Technology Investments		\$2,000,000		\$3,000,000
Administrative Expenses		73,000		105,000
		<u>\$2,073,000</u>		<u>\$3,105,000</u>

Montana Economic Development Board

Local Tax Loans

Geographic Distribution



Montana Science and Technology Alliance

Summary of Funding Requests

(As of December 15, 1986)

Inquiries	195
Executive Summaries	70
Summaries with University Participation	34
Formal Proposals	33
Alliance Funds Requested in Summaries	\$ 8,067,436
Private Matching Funds	18,389,680
Total Project Costs from Summaries	26,457,116

Montana Science and Technology Alliance

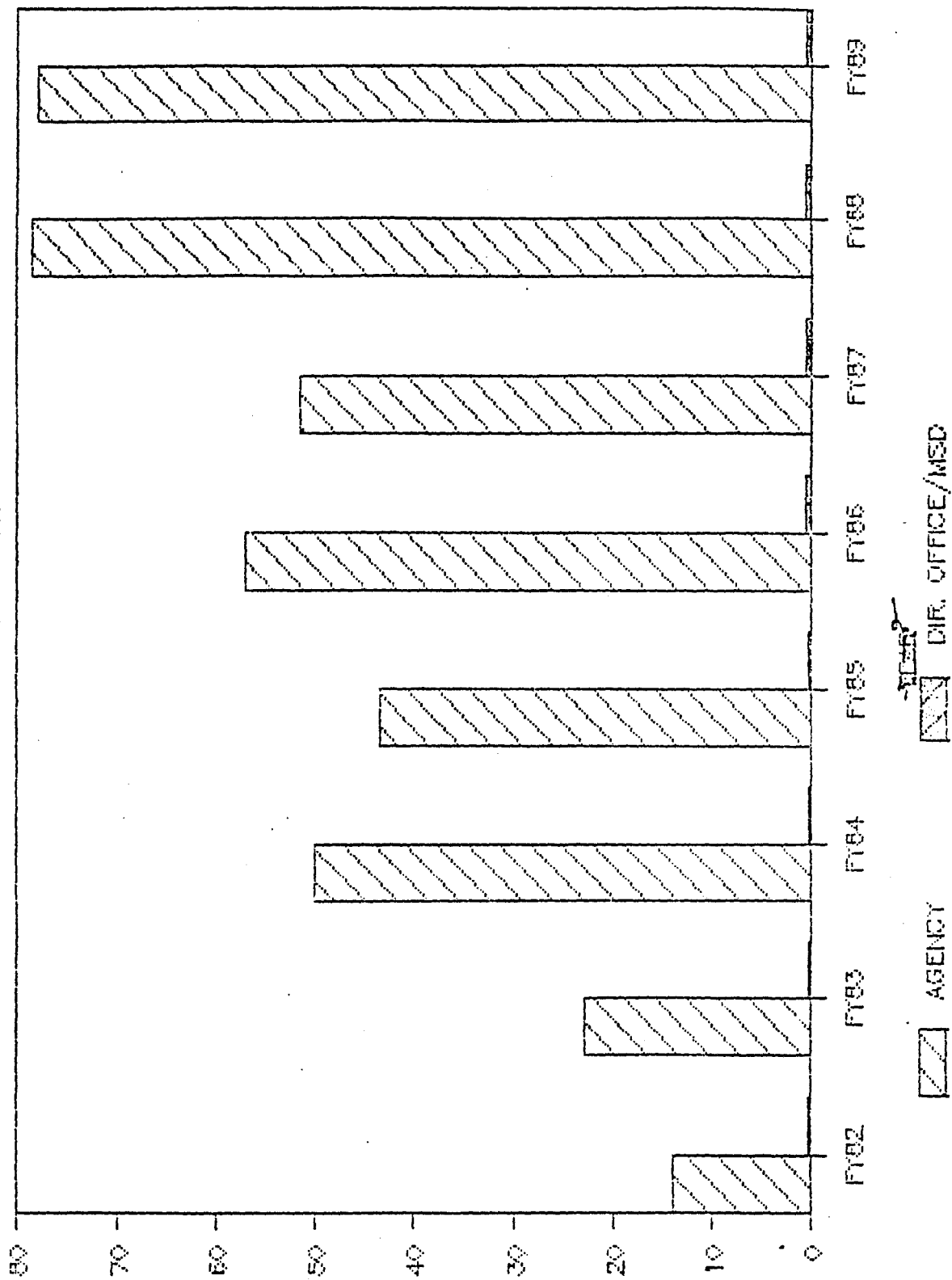
Summary of Funded Projects

(As of December 15, 1986)

Full Proposals Received	33
Proposals Funded	18
Funded Proposals with University Participation	10
Total MSTA Funds Committed	\$1,640,910
Matching Funds Committed	\$2,724,892

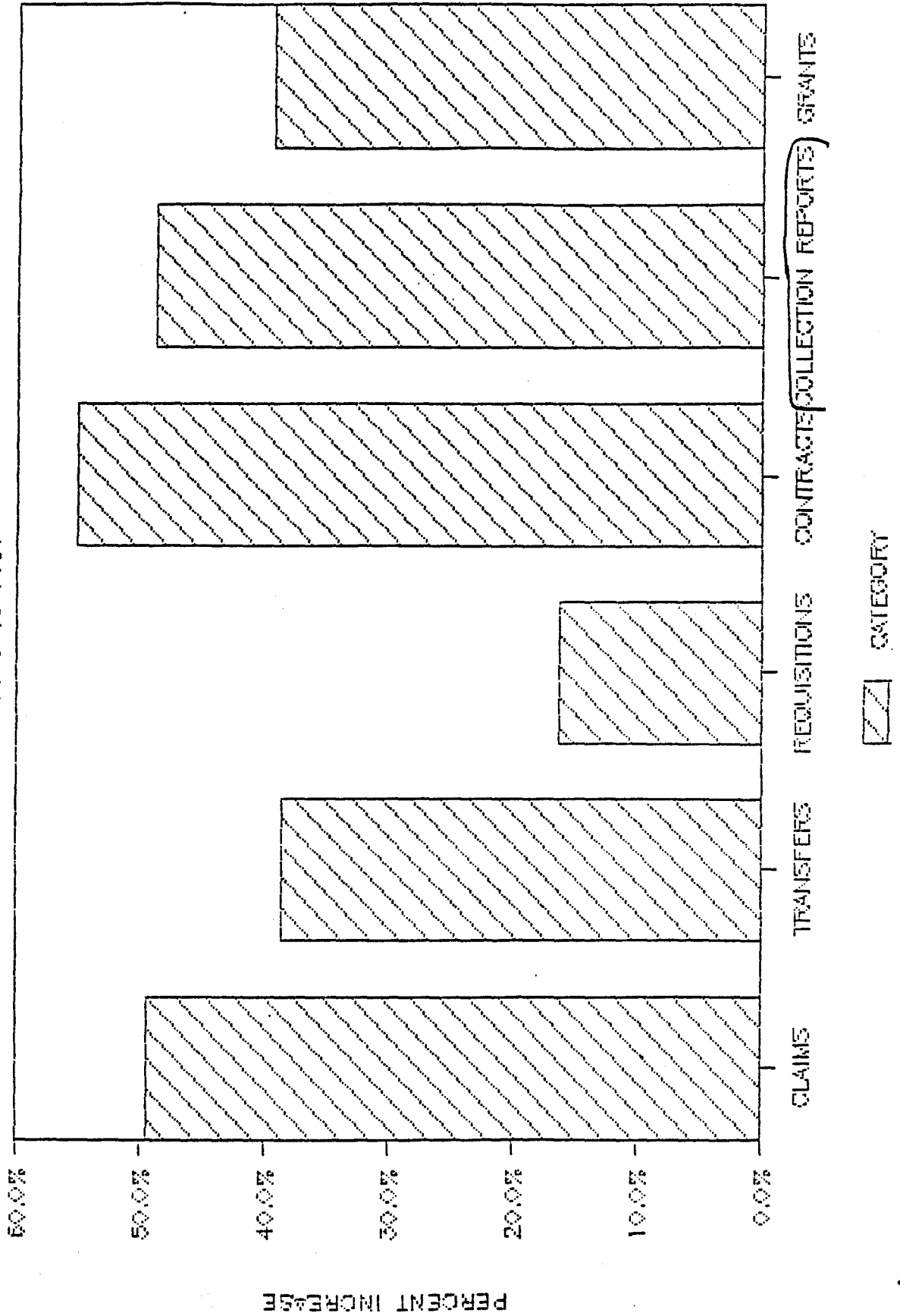
DEPARTMENT OF COMMERCE

APPROPRIATION HISTORY

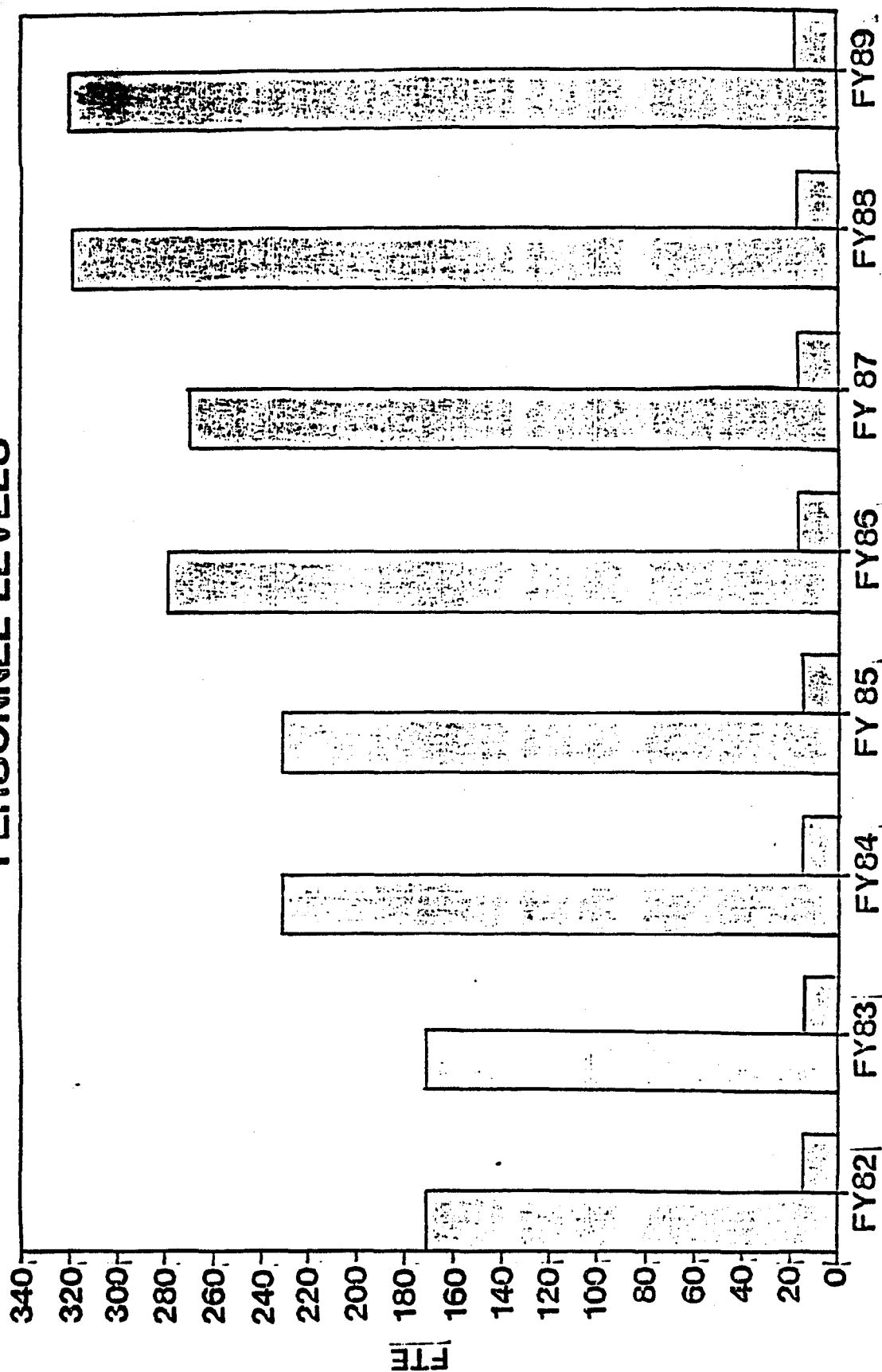


WORKLOAD INCREASE

FY83 TO FY86



DEPARTMENT OF COMMERCE PERSONNEL LEVELS



☐ AGENCY
 ☐ DIR. OFFICE/MSD

PROJECTED REVENUE

Per Capita Sales Projection

The revenue projection for the Montana State Lottery is based upon the FY 1986 revenues realized by the 23 states currently operating a lottery (See Attachment A). In estimating the gross revenue for Montana, three different analysis techniques were used. These include 1) the four states with the lowest gross per capita sales for FY86; 2) the four lottery states with the lowest population density; and 3) the five lottery states with populations under 1 million.

1. Lowest gross per capita sales:

Vermont	\$23.18	
West Virginia	\$28.11	
Iowa	\$30.71	
New Hampshire	\$31.46	
Total:	\$113.46	State Average: \$28.37

2. Lowest population density:

Vermont	\$23.18	
Oregon	\$34.81	
Arizona	\$39.03	
Colorado	\$34.06	
Total:	\$131.08	State Average: \$32.77

3. States under 1 million population:

Vermont	\$23.18	
New Hampshire	\$31.46	
Delaware	\$65.76	
Rhode Island	\$58.37	
District of Columbia	\$143.13	
Total:	\$321.90	State Average: \$64.38

Based upon this analysis and the fact that the average per capita gross sales for all lottery states was \$77.07 for FY86, we estimate that the per capita gross sales for the Montana State Lottery will be \$30.00. It is felt that this is a responsible estimate, one which takes into account the low population density in the state. Gross sales at \$30.00 per capita would generate on average the following revenue;

	FY88	FY89
Projected per capita gross sales:	\$30.00	\$30.00
Montana population (1985 est.)	x <u>832,000</u>	<u>835,000</u>
Estimated gross revenue (sales)	\$24,960,000	\$25,050,000

Licensing Revenue

Statistics appear to indicate that one licensee for every 1200 residents is the norm for all lottery states. Using this as an average ratio, Montana, with a 1985 estimated population of 826,000 residents, would license 688 retailers in the state. With a low population density and the fact that some Montana counties do not have a population of 1200 people, we estimate that Montana would need a licensee for every 826 residents resulting in 1000 licensees.

Projected # of Licensees	1,000
License Application Fee	<u>\$50.00</u>
Estimated gross revenue (licensing)	\$50,000

FISCAL YEAR 1986 LOTTERY SALES BY STATE
RANKED BY POPULATION DENSITY

STATE	POPULATION	LOTTERY SALES	PER CAPITA SALES	POP. DENSITY
VERMONT	535,000	\$12,400,000	\$23.18	23
OREGON	2,600,000	\$90,500,000	\$34.81	28
ARIZONA	3,100,000	\$121,000,000	\$39.03	28
COLORADO	3,200,000	\$109,000,000	\$34.06	31
MAINE	1,100,000	\$38,700,000	\$35.18	38
IOWA	2,800,000	\$86,000,000	\$30.71	52
WASHINGTON	4,400,000	\$131,000,000	\$41.14	66
MISSOURI	5,000,000	\$210,000,000	\$42.00	73
WEST VIRGINIA	1,500,000	\$53,400,000	\$29.11	80
NEW HAMPSHIRE	998,000	\$31,400,000	\$31.46	111
MICHIGAN	9,000,000	\$775,100,000	\$86.12	160
CALIFORNIA	26,300,000	\$1,750,000,000	\$66.54	169
ILLINOIS	11,500,000	\$1,300,000,000	\$113.04	207
OHIO	10,700,000	\$938,000,000	\$87.66	252
PENNSYLVANIA	11,800,000	\$1,320,000,000	\$111.86	264
DELAWARE	622,000	\$40,900,000	\$65.76	322
NEW YORK	17,700,000	\$1,300,000,000	\$73.45	373
MARYLAND	4,300,000	\$718,000,000	\$166.98	446
CONNECTICUT	3,100,000	\$429,000,000	\$138.39	631
MASSACHUSETTS	5,800,000	\$1,100,000,000	\$189.66	744
RHODE ISLAND	968,000	\$56,500,000	\$58.37	918
NEW JERSEY	7,500,000	\$990,000,000	\$132.00	1013
DISTRICT OF COLUMB	626,000	\$89,600,000	\$143.13	9937
TOTALS:	135,549,000	\$11,740,500,000	\$1,772.63	15,998
AVERAGE:	5,893,435	\$510,456,522	\$77.07	696

EXHIBIT 4
DATE 1/4/87
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ADMINISTRATIVE EXPENSES

The lottery legislation which passed during the November election includes in Section 13 (2) the following language;

"Up to 15% of the gross revenue from the state lottery may be used by the director to pay the operating expenses of the state lottery. Commissions paid to lottery ticket or chance sales agents are a state lottery operating expense."

The 15% administrative cap in the referendum would critically affect the ability of the lottery to operate. By limiting administrative expenses to 15%, it is believed that gross revenues would be severely impacted and would in fact return minimal revenue to the public school retirement equalization aid fund for property tax relief.

Because of the low population and more importantly the population density in Montana, we will not enjoy the economies of scale that many of the larger (population) states do. This is apparent when we consider the fact that the 5 lottery states with the lowest population density average 22.3% of gross sales for administrative expenses including commissions (See Attachment). If anything, the administrative budget being evaluated today is conservative.

The affect of a 15% administrative cap which includes commissions of 5% is shown as follows;

<u>Administrative Expenses</u>	15.0%
Less Commissions	(5.0%)
Less Ticket Costs	(4.0%)
Less Advertising	<u>(3.3%)</u>
Remainder For Administration	2.7%

The 2.7% represents approximately \$675,000 for all overhead costs including 35 employees, all equipment and vehicles, travel for 10 field sales representatives, supplies, rent, repair and maintenance, communications, audit costs etc.. The Montana state lottery could not function at this level of funding.

As a result of our analysis, Representative Pavlovich and Senator Stimatz are sponsoring legislation to amend the existing law so that the 15% administrative cap does not include commissions to sales agents (See Attachment). This will provide for an administrative budget which is realistic and one which gives the lottery the ability to function. The budget presented here today assumes passage of that amendment to the lottery law and is equal to approximately 19% of gross sales.

ADMINISTRATIVE EXPENSES	FY88	FY89
Personal Services	\$857,206	\$863,417
Operating Expenses *	\$3,820,503	\$3,779,083
Equipment	\$42,000	\$42,000
TOTAL	\$4,719,709	\$4,684,500
% of Gross Sales	18.9%	18.7%

* Includes 5% sales commission

FISCAL YEAR 1986 LOTTERY SALES BY STATE
RANKED BY POPULATION DENSITY

STATE	POPULATION	LOTTERY SALES	PER CAPITA SALES	POP. DENSITY
VERMONT	535,000	\$12,400,000	\$23.18	33
OREGON	2,500,000	\$90,500,000	\$34.81	38
ARIZONA	3,100,000	\$121,000,000	\$39.03	39
COLORADO	3,200,000	\$109,000,000	\$34.06	31
MAINE	1,100,000	\$38,700,000	\$35.18	38
IOWA	2,800,000	\$86,000,000	\$30.71	32
WASHINGTON	4,400,000	\$181,000,000	\$41.14	36
MISSOURI	5,000,000	\$210,000,000	\$42.00	73
WEST VIRGINIA	1,900,000	\$53,400,000	\$28.11	30
NEW HAMPSHIRE	998,000	\$31,400,000	\$31.46	111
MICHIGAN	9,000,000	\$775,100,000	\$86.12	150
CALIFORNIA	26,300,000	\$1,750,000,000	\$66.54	169
ILLINOIS	11,500,000	\$1,300,000,000	\$113.04	207
OHIO	10,700,000	\$938,000,000	\$87.66	252
PENNSYLVANIA	11,800,000	\$1,320,000,000	\$111.86	284
DELAWARE	622,000	\$40,900,000	\$65.76	322
NEW YORK	17,700,000	\$1,300,000,000	\$73.43	373
MARYLAND	4,300,000	\$718,000,000	\$168.98	443
CONNECTICUT	3,100,000	\$429,000,000	\$138.39	631
MASSACHUSATES	5,800,000	\$1,100,000,000	\$189.66	744
RHODE ISLAND	968,000	\$56,500,000	\$58.37	918
NEW JERSEY	7,500,000	\$990,000,000	\$132.00	1012
DISTRICT OF COLOMB	626,000	\$89,600,000	\$143.13	9937
TOTALS:	135,549,000	\$11,740,500,000	\$1,772.63	15,998
AVERAGE:	5,893,435	\$510,456,522	\$77.07	696

*** Avg. of Admin. Expenses for 5 Lowest Population Density States

Vermont	27.0%
Oregon	17.7%
Arizona	23.8%
Colorado	20.3%
Maine	22.6%
<hr/>	
Average	22.3%

LOTTERY LEGISLATION AMENDMENTS

HB945 - SESSION LAWS OF 1985

Section 5 (6) - Allows the lottery commission to enter into agreements with other lottery states to offer regional lottery games. This amendment is intended to increase revenues through the institution of electronic lottery games which Montana cannot support by itself because of the small population base.

Section 8 - All amendments in this section are intended to make the director for security an exempt position in state government. The law already provides for the appointment of this position by the lottery director and it is felt that an appointed position should serve at the pleasure of the person appointing them. This amendment also sets the salary of the director of security at 90% of the lottery director.

Section 13 - Amends the law to allow payment of a minimum of 45% of revenue as prizes over time as opposed to each lottery game. Because of the weekly drawing of lottery prizes and the short duration of a particular lottery game (6 - 8 weeks), there is no guarantee that the jackpot prize will be won before the end of a particular game. As written, the law would prohibit the carryover of jackpot prizes from one game to the next and all prizes would have to be paid out for each game. This would reduce the size of the jackpots and therefore, seriously impact the sales for the lottery operations.

Section 13 (2)&(3) - Removes commissions from the 15% of gross revenue allowed for operating expenses. If commissions are included in the 15% cap, administrative expenses are limited to 10% of gross revenue. All indications from other lottery states is that Montana with it's low population and population density cannot possibly run a lottery with 10% of gross revenue. A good indication of this is shown in the following chart using the industry standards for necessary expenditures;

Administrative Expenses	15.0%
Less Commissions	(5.0%)
Less tickets	(4.0%)
Less advertising	(3.3%)
Available after commissions, tickets and advertising	2.7%

Using the revenue estimate of \$30/capita, 2.7% of approximately \$25,000,000 in gross revenue would leave about \$675,000 annually for salaries (35 FTE), travel, rent, utilities, communications, equipment maintenance, contracted services, supplies, etc.

Section 13 (3) - Amends existing statute to clearly show that the distribution of proceeds to the superintendent of public instruction on a quarterly basis is for net revenue available. The current law could be interpreted as meaning the total revenue estimate for the year would be distributed on October 1 which would require the lottery or the superintendent to request a general fund loan for anticipated revenue.

Section 16 (3) - Amends the law to allow for payment of prizes over \$100,000 over a period of 20 years instead of 10 years with the provision that annual payments be at least \$20,000. Annuities of this type in other lottery states are paid over 20 years. The use of a 20 year annuity allows the lottery to advertise much larger prizes which in turn generates additional sales.

Section 17 (2) - Removes the term "or connection with" when talking about relationships between gaming suppliers and ticket agents. The law still prohibits a financial interest in this type of association however, the word "connection" is so broad as to make this part of the law unworkable. An example could be two people who are members of the same church.

Section 19 - Provides that the security audit report is not a public document. The security audit will contain information on possible ways of stealing from the lottery and possibly provide some good examples. This type of information is very important to the continued operation of the lottery but should not be available for public consumption.

Section 24 - Allows the lottery to carryover the 1.5 million dollar general fund loan over the end of the 1987 biennium. This is necessary because state statute does not allow general fund loans to be carried over the end of a biennium. The lottery is operating on the general fund loan now and it is not anticipated that any revenue will be generated before the end of the biennium (June 30, 1987).

EXHIBIT 6
DATE 1/14/87
HB Commerce
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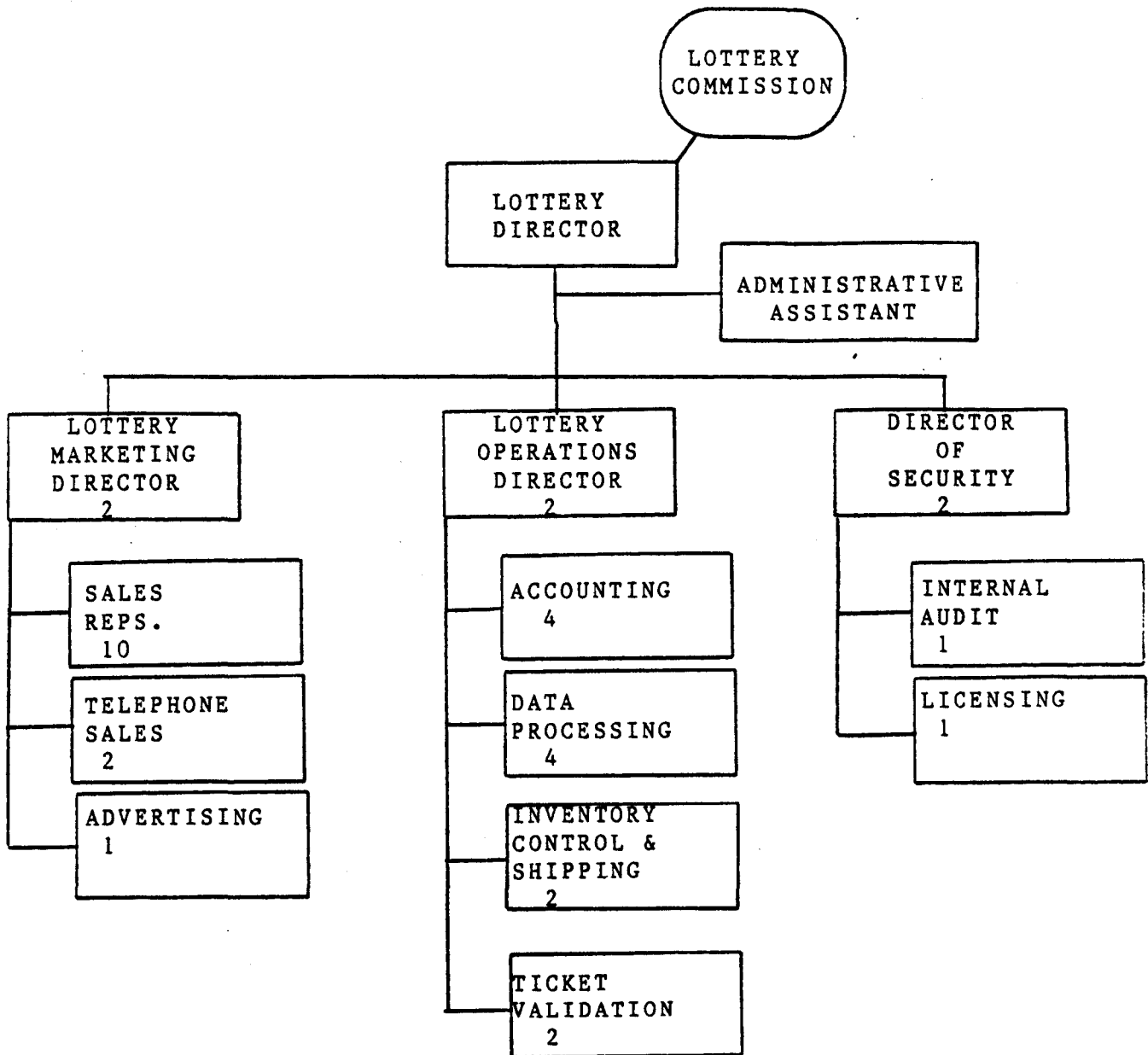


EXHIBIT 9
DATE 1/14/87
HB Commerce
Dept.

TRANSPORTATION DIVISION

General Fund	FY 1986	-	\$604,533
	FY 1988	-	\$582,134

-\$22,399 - Reduction = Vacancy Savings and Travel

We are requesting a budget modification for spending authority in the amount of \$501,905. This is interest that accrues from Federal Railroad Administration (FRA) project monies. These monies will be available for use on rail lines in Livingston, Plentywood-Scobey, Saco to Loring and in the Anaconda area. Projects utilizing these funds will require the approval of the FRA.

FTE's - have been reduced from 15 to 12 due to a loss of \$100,000 in Federal Railroad Administration monies.

Impact of fund loss:

1. Reduce ICB personnel by 75 percent.
2. Eliminate technical assistance to shortlines.
3. No State Rail Plan - lose our ability to qualify for federal project monies.
4. Greatly curtail the rail data base which is vital to our litigation efforts - e.g., McCarty Farms rate case.

Vacancy Savings - loss of \$16,000

1. The Division is small.
2. Virtually no turnover.
3. Loss of additional FTE.

Division has three Bureaus and a Special Projects Manager.

Passenger Bureau - 4 FTE's (funded almost entirely from federal funds except match)

Capital Assistance - Elderly, Handicapped and General Public

Federal Funds \$426,709

Local Match 106,677

Used for 25 transit vehicles, bus shelters, benches.

Communities: Helena, Butte, Glasgow, Browning, Lewistown

Administration, Operation and Maintenance (assistance for public transportation)

Federal Funds \$576,651

Local Match 576,651

Communities: Helena, Butte, Glasgow, Browning, Lewistown

Transportation Planning

Federal Funds \$116,240

Local Match 29,060

EXHIBIT 7
DATE 1/14/87
HB Commerce
Dept.

INCOME/EXPENSE STATEMENT - MONTANA STATE LOTTERY

REVENUE	FY88	FY89
Gross Ticket Sales	\$24,960,000	\$25,050,000
License Fees	\$50,000	\$50,000
Gross Revenue	\$25,010,000	\$25,100,000

OPERATING COSTS	FY88	FY89
Personal Services	\$857,206	\$863,417
Operating Expenses	\$3,820,503	\$3,779,083
Equipment	\$42,000	\$42,000
TOTAL	\$4,719,709	\$4,684,500

DISTRIBUTION OF PROCEEDS

Prizes (45%)	\$11,112,300	\$11,295,000
Administration		
Operating	\$3,469,209	\$3,429,500
Commissions (5%)	\$1,250,500	\$1,255,000
Public School REA	\$7,463,225	\$9,120,500
G.F. Loan Repayment	\$1,572,566	0
Total	\$25,010,000	\$25,100,000

EXHIBIT 8
DATE 1/14/87
HB Commerce
Dept.

THE FINANCIAL DIVISION IS RESPONSIBLE FOR CHARTERING, LICENSING, SUPERVISING AND EXAMINING STATE **BANKS**, S&LA'S, CU'S, CONSUMER LOAN COMPANIES AND SALES FINANCE COMPANIES. WE **ALSO** EXAMINE THE LOANS OF MEDB AND QUALIFIED MONTANA CAPITAL COMPANIES. WE ARE **BY LAW** THE PRIMARY SUPERVISOR OF STATE CHARTERED OR LICENSED FINANCIAL INSTITUTIONS AND ARE EXPECTED TO ACT AS THE GUARDIAN OF THE PUBLIC'S INTERESTS IN THESE INSTITUTIONS AND TO PREVENT LOSSES RESULTING FROM MISMANAGEMENT OR INSOLVENCY OF THESE INSTITUTIONS. FUNDING FOR OUR PROGRAMS IS PROVIDED BY VARIOUS FEES AND ASSESSMENTS AGAINST THE BUSINESSES WE SUPERVISE. WE ARE 100% FUNDED BY THE FINANCIAL INDUSTRY.

ALL OF THE INSTITUTIONS WE SUPERVISE ARE REQUIRED BY LAW TO BE EXAMINED AT LEAST ANNUALLY. IN THE CASE OF BANKS, A FEDERAL EXAMINATION MAY BE ACCEPTABLE, BUT OUR DIVISION IS THE PRIMARY SUPERVISOR AND SHOULD MAKE REGULAR EXAMINATIONS. IN RECENT YEARS THE EXAMINATION REQUIREMENT HAS NOT BEEN MET. BECAUSE OF THE ECONOMIC PROBLEMS WHICH HAVE DEVELOPED DURING THAT PERIOD AND FINANCIAL DEREGULATION AT THE FEDERAL LEVEL, BANKING HAS BECOME A MUCH MORE DIFFICULT AND DEMANDING BUSINESS. AS A RESULT OUR EXAMINATION PROCESS IS NOW MORE COMPLEX AND TIME CONSUMING THAN IT WAS JUST A FEW YEARS AGO. IN 1986 IT TOOK 7.2 MORE MAN-DAYS TO COMPLETE AN EXAMINATION THAN IT DID IN 1983. BECAUSE OF CURRENT BANKING PROBLEMS THE TREND FOR ALL SUPERVISORY AGENCIES IS TO EXAMINE FEWER BANKS OR EXAMINE SOME BANKS LESS FREQUENTLY THAN THEY SHOULD BE. THIS IS AT A TIME WHEN BANK PROBLEMS ARE INCREASING. THE CHART I HAVE GIVES SOME DETAILS OF OUR RECENT PERFORMANCE. BEFORE 1983 EACH BANK WAS EXAMINED AT LEAST ONCE A YEAR; SINCE THEN A SUBSTANTIAL NUMBER OF OUR BANKS HAVE GONE UNEXAMINED EACH YEAR. THE REDUCTION IN BANKS NOT EXAMINED IN 1986 WAS ACCOMPLISHED MAINLY BECAUSE FDIC (A FEDERAL AGENCY) WAS ABLE TO SHIP IN A COUPLE OF EXAMINING CREWS FROM THE WEST COAST AND THEY PICKED UP A FEW BANKS.

BECAUSE OF INDUSTRY PROBLEMS AND SINCE WE ARE BY LAW THE PRIMARY SUPERVISOR OF BANKS AND SHOULD BE **TAKING** THE LEAD IN SUPERVISION, IT IS CRITICAL FOR US TO BE FULLY STAFFED WITH **COMPETENT**, WELL-TRAINED PEOPLE. OBVIOUSLY, AS YOU CAN SEE BY THE CHART,

OUR STAFFING AND EXPERIENCE LEVEL IS NOT ADEQUATE TO EXAMINE ALL BANKS AS OFTEN AS WE SHOULD. WE CURRENTLY HAVE 15 BANK EXAMINERS. ONE EXAMINER POSITION IS VACANT TO ACCOMMODATE ~~CURRENT~~ BUDGET REDUCTIONS. OF OUR 15 EXAMINERS 6 HAVE LESS THAN 1½ YEARS OF EXPERIENCE. **THESE 6** NEWER PEOPLE WILL EACH REQUIRE ABOUT 5 YEARS OF TRAINING, BOTH ON-THE-JOB AND AT FORMAL SCHOOLS, BEFORE THEY ARE ABLE TO EXAMINE ALL FACETS OF AN INSTITUTION. TRAINING TIME IS INCREASED IF FORMAL SCHOOLING CAN'T BE PROVIDED AT APPROPRIATE TIMES.

WITH A 4% VACANCY SAVINGS APPLIED, WE WILL AGAIN BE FORCED TO LEAVE THE BANK EXAMINER POSITION VACANT IN THE UPCOMING BIENNIUM. IT IS CRITICAL TO US TO BE ABLE TO UTILIZE THIS POSITION BECAUSE OF THE BACKLOG IN EXAMINATIONS AND THE PROBLEMS THAT THE BANKS ARE FACING. BUDGET REDUCTIONS - THROUGH THE RECENT 5% AND 2% CUTS - HAVE LIMITED OUR ABILITY TO PROVIDE THE SUPERVISION OF BANKS THAT IS ESSENTIAL AT THIS TIME.

Technical and Management Assistance to local transit operators in six communities through Section 6.

Uniform Transportation Accounting System that is compatible for District reporting to both Commerce and SRS.

Conducted a statewide Transit Insurance Inventory to assist transit operators and local communities in identifying insurance needs.

Intermodal Commodities Bureau

Received \$736,000 in Federal Local Rail Service Assistance monies.

1. \$250,000 - Moore/Sipple Connection
2. \$86,000 - Tunnel Repair CMR
3. \$300,000 - Moccasin to Spring Creek
4. \$100,000 - Rail Planning

Provided branchline analysis data to groups in Wilsall, Butte, Anaconda, Malta, Plentywood, and Misscula. (Track condition, revenues, rehab costs, highway analysis)

Provided technical and financial assistance to Central Montana Rail and Rarus. CMR will haul in excess of 400 cars this year. Rarus has Butte mines ore haul.

Provided mechanism through our H.B. 815 authority to preserve rail service on the former BA&P railway between Butte and Anaconda. This service has proved an essential link to the reopening of the Butte mining operations.

Railroad right-of-way management requires monitoring of 1072 leases, licenses and permits on state-owned right-of-way on Rarus and CMR. An inventory system is in place and parcel management is being systemized to develop a consistent routine.

Conducted feasibility analysis for a hub transload facility. The study led to the Department applying for 3.2 million dollars in Energy Overcharge Funds that would assist in constructing an approximate 8 million dollar transload facility. The exact location would be determined through a request for proposal process. The successful bidder will be selected based upon predetermined criteria established by the Department. 2.1 million dollars for this purpose has been recommended in the Executive budget.

Provided technical assistance to promoters of historic and recreational railroad operators interested in developing a passenger short line rail service in the Livingston and Butte-Anaconda areas.

Prepared 1986 Rail Plan Supplement to maintain state eligibility for federal rail funds. Areas covered include Wilsall, Anaconda and Lewistown. Completed inventory and shipper survey work on the Southern Mainline Study for 1986 Rail Plan Update. The physical track conditions have been assessed and 50 of the major shippers have been interviewed for data and their thoughts on mainline transportation needs.

Southern Mainline: BN has said the Southern Mainline is for sale. This is the line segment from Laurel, Montana to Sandpoint, Idaho. This is mainline track of 626 miles additional miles with attendant branchlines 340 miles

Total	966 miles
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Yard track is an additional 170.6 miles

Total	1,136.6 miles
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900 plus jobs associated with the line

Major concerns with sale:

1. Possibility of closing gateway to the U.P. and access to competing carrier.
2. Impact upon shippers and producers.
3. Job loss.

Special Projects Section

Maritime Transportation Study

- 1) Coordinated 58 overseas indepth market interviews on three European countries and six Pacific Rim countries.
- 2) Evaluated transportation alternatives, costs, and innovative techniques for moving Montana commodities and products to the interviewed overseas key markets.
- 3) Prepared a comprehensive report entitled "The Feasibility of Stimulating Montana Exports Through Transportation Innovation." The report presents the findings and conclusions of the 2 1/2 year maritime study.

Highway Impact Study

Evaluations were made of 29 Montana Department of Highways proposed projects with respect to land use, environmental and transportation (truck and rail) impacts.

Amtrak

- 1) The Amtrak rail passenger data base was automated and a program was developed for the rail passenger data base and made operational.

competition evidence. The BN filed their rebuttal on November 17. The Commission for the first time has publicly stated a timetable in which to decide the market dominance phase of the case. The ICC has said that a market dominance decision will be rendered by the end of 1986 on McCarty Farms. BN rate overcharges since 1978 have been calculated at 84 million dollars.

Following are expenses related to McCarty Farms.

Wheat commission and producers	\$300,000
State of Montana	397,600
Harding and Nelson	<u>257,900</u>
Total	\$955,500

Federal Legislation

Because of the failure of the ICC to protect the interest of captive shippers as called for when railroad operations were deregulated, a number of bills have been introduced at the federal level aimed at restoring equality between the shipper and the railroad industry. The Department, through written and oral testimony at Congressional hearings has appealed for help with Montana transportation problems. Adjustments to the Staggers Act, the strengthening of U.S. anti-trust laws, and

disclosure of critical information of grain contracts to shippers are all part of these efforts.

ICC Ex Parte Proceedings

Closely tied to the basic elements of ICC procedures and decision making are the Ex Parte proceedings. The Division has actively participated in the following Ex Parte Proceedings:

Ex Parte 347 - The original proceedings involved the coal rate guidelines being developed and currently adopted by the ICC.

Ex Parte 347 (Sub 2) - Determines what constitutes reasonable rates for noncoal commodities. Since coal and agriculture account for 90 percent of all Montana rail traffic, the Division has been very active in these proceedings.

Ex Parte 387 - Railroad Contract Rates

Ex Parte 393 - Revenue Adequacy

Ex Parte 320 - Market Dominance

Ex Parte 290 (Sub 2) - Rail Cost Adjustment Factors. This index determines the level of the rate increases a railroad

may take. The Division supports a two-way index considering cost decreases as well as increases.

Ex Part 462 - Demurrage Deregulation. The Bureau opposed the concept of future railroad deregulation where captive shippers would again face uncertainty of fair treatment before the ICC.

Build Montana

The availability and cost of appropriate transportation is a critical concern for new and existing businesses in Montana. The Division has assisted a number of businesses in looking at their transportation needs, including providing transportation data to new and existing businesses. Service provided included packaging, marketing, costing, rates and routings.

VISITOR'S REGISTER

NATURAL RESOURCES

SUBCOMMITTEE

AGENCY(S)

~~DEPARTMENT OF COMMERCE~~

DATE

1/14/87

DEPARTMENT

NAME	REPRESENTING	SUP- PORT	OP- POSE
<i>Sandy Courtney</i>	<i>Commerce</i>		
<i>Gandy Pash</i>	<i>Commerce</i>		
<i>Keith L. Colbo</i>	✓		
<i>Carolyn Doering</i>	<i>Commerce</i>		
<i>Jon Meredith</i>	<i>Revenue (Video Poker)</i>		
<i>Chris Olson</i>	<i>Commerce</i>		
<i>Laurel Daly</i>	<i>Commerce</i>		
<i>Diane Dowling</i>	<i>Lottery</i>		
<i>Mike Ferguson</i>	Commerce - <i>Aeronautics</i>		
<i>Jim KEMBEL</i>	BUSINESS REGULATION DIVISION DEPT. OF COMMERCE		

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT
 IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY

- 32
- 2) An Empire Builder Passenger Report was developed for 1985 and 1986. The Report utilized the computerized Amtrak rail passenger data base to develop boarding and deboarding trends between 1977 and 1985 for the Empire Builder route and its eleven stations.

MGGA Truck Costing Study

A truck costing program was designed and computerized with respect to analyzing truck revenues, fixed costs, variable costs, and truck user fee costs. Grain general commodity, and lumber truck operations were evaluated.

Pilot Study

A special truck transportation pilot study was undertaken in October and November of 1986. The Pilot Study's objective was to determine the feasibility of allowing Montana motor carriers the opportunity to bid on the transportation portion of state purchase contracts. Previously out-of-state vendors arranged for the transportation of state purchase contracts using out-of-state motor carriers.

Litigation and Analysis

McCarty Farms

Producer filed rate case in March 1981. State filed base rate case in 1981 before ICC.

1982 favorable ALJ decision for McCarty Farms.

1. BN is market dominant.
2. Some rates were as high as 292 percent of revenue to cost.

BN appeals decision in 1982.

ICC reopens the case and combined state's case with McCarty.

Cases have been reopened five times allowing additional evidence in response to ICC's ever changing rules. Last reopening in April of 1986.

Despite over ten months of negotiating to reach an out-of-court settlement with the BN, the unanticipated reopening of the market dominance portion of the case, and the continued inaction on the part of the ICC, significant progress is being made in resolving the case. Under the terms of the most recent ICC reopening of the case, the state filed evidence on November 3 in response to the BN's product and geographic

VISITOR'S REGISTER

NATURAL RESOURCES

SUBCOMMITTEE

AGENCY(S) DEPARTMENT OF COMMERCE

DATE 1/14/87

DEPARTMENT

NAME	REPRESENTING	SUP- PORT	OP- POSE
<i>Bill Fogarty</i>	<i>Dept of Commerce</i>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<i>Maureen Stoll</i>	<i>" "</i>	<input type="checkbox"/>	<input type="checkbox"/>
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