

MINUTES OF THE MEETING  
BUSINESS AND INDUSTRY COMMITTEE  
MONTANA STATE SENATE

January 27, 1987

The ninth meeting of the Business and Industry Committee was called to order by Chairman, Allen C. Kolstad on Tuesday, January 27, 1987, in Room 410 of the Capitol Building at 10:00 a.m.

ROLL CALL: All committee members were present except Senator Delwyn Gage who was excused.

CONSIDERATION OF HOUSE BILL 122: Representative Ray Peck, House District 15, Havre, chief sponsor of HB 122 introduced this bill at the request of the Department of Commerce. He stated that it is a simple bill that changes the meeting times of the State Board from each quarter, at a fixed date and time which is currently specified in the law to dates and times as set by the Department. He explained that basically the Department feels that it needs the flexibility in view of current needs and conditions that we see in financial institutions, and that it is more efficient for everyone if they can be flexible. The second change, he noted, will change the required examination from once a year to every thirty months. He explained that the Federal Reserve System and the FDIC also examine the banks as well as the State of Montana. The State is unable to meet that annual requirement for examinations at this time, primarily because of the shortage of help. Also, banks have increased their assets since that law was put on the books, and are more difficult to examine. There were more troubles with banks when the law was first initiated than today. By setting this up in cooperation with the FDIC and Federal Reserve, they feel that the State of Montana will be more efficient, and they do have a cooperative agreement with those other organizations in terms of examinations.

PROPOSERS: Chris Olson, Department of Commerce, Financial Division, stated that he would like to urge the support of the Committee for this bill and would be available for questions.

OPPOSERS: There were no opposers to HB 122.

DISCUSSION OF HOUSE BILL 122: Chairman Kolstad called for questions from the Committee. Senator Neuman asked Mr. Olson if there would be at least one annual examination for each bank from at least one of the three

organizations. Mr. Olson answered that that would not necessarily be the case. Some banks are not getting an annual examination presently. There were nineteen banks that did not get an examination last year and 28 the year before. Senator Neuman then wanted to know if those banks were picked at random, or if they tried to choose banks that might be having difficulty. Mr. Olson answered that they are trying to give the most attention to the banks that have the most serious problems. They can monitor the condition of the banks by reviewing the examinations that the Federal Agencies do and the banks also provide quarterly reports to the Department. There are also national organizations that compile statistics on banks which they rely on.

Senator Thayer asked if the FDIC and the Federal Reserve Bank have any requirements for making examinations on a periodic basis, or if all three agencies were having the same problem of not being able to get the examinations done. Mr. Olson stated that the FDIC problems were probably more serious, because they are responsible for examining 73 or 74 banks in Montana, 15 of which they haven't examined since 1983. The State has a cooperative agreement with the Federal Reserve; and, between the two, all banks who are members of the Federal Reserve Program will be examined each year by the State or the Federal Reserve. Senator Thayer then wanted to know if it were correct then, to assume that if a bank failed which hadn't been examined, there could be some liability, and Mr. Olson answered that there could be some liability. Senator Thayer stated that he had heard that there were some thirty banks that are presently in trouble and he wondered if that were true. Mr. Olson stated that he didn't have information about national banks, but as far as State banks go, thirty would be a little low.

Representative Peck closed the hearing on HB 122 by saying that the important thing to remember was that this will provide the Department the flexibility in terms of the time situation and the other situation just discussed. Representative Peck explained that it should be understood that the costs of the examinations are paid by the banks and cost nothing as far as the State is concerned. He urged the support of the Committee.

The hearing on House Bill 122 was closed.

CONSIDERATION OF SENATE BILL NO. 156: Senator Richard E. Manning, Senate District 18, Great Falls, chief sponsor

for this bill stated that this bill is an act entitled to allow for licensing by local governing bodies of sports pools conducted on premises licensed for the sale of liquor, beer, food, or cigarettes; to increase the amount that may be charged for an individual chance in a sports pool of \$5; to increase the amount that may be paid out on a sports pool to \$500; to delete the requirement that the winner receive a 100 percent payout; and amending Section 23-5-503, MCA. He explained that there is a new section which allows the local governing body to charge an annual license fee of not more than \$150 per license issued under that section. Further, the federal government presently requires licensing of these pools. There are probably some pools being run in Montana that are not licensed, but they are probably not aware that that is required. There is a \$50 fee per person doing the handling of the pool. On this bill the amount of the fee has been left open. Senator Manning stated that he had talked to several of the persons who would be involved in this and they would be happy to settle for 5% to cover part of their time and cost. He urged the Committee to support SB 156 and stated he would be happy to answer any questions.

PROPOSERS: Mr. Bob Durkee, representing the Montana Taverns' Association, stated that they endorse SB 156 on the basis that it provides a convenience for our customer who likes to bet on sports pools. They feel it will be an added incentive for people to come into their establishments because they will know they can bet on sports pools.

OPPOSERS: Ms. Mignon Waterman, representing the Montana Association of Churches, stated that they oppose the bill because in the end, they see it as an extension of gambling. They feel that the upping of the value of the pool does allow more gambling and has the potential for increasing the social costs. Therefore, they do oppose SB 156.

DISCUSSION OF SENATE BILL 156: Chairman Kolstad called for questions from the Committee.

Senator Neuman asked Senator Manning if they have licensing at the local level, wouldn't they be better off to have it licensed at the State level so that there could be some uniformity of rules as to what does or does not constitute a pool and how the winners are picked. Senator Manning answered that he didn't feel that would be

preferable because it would probably cost ten-fold to administer the program. Senator Neuman wanted to know if he interpreted it correctly that under this bill, places such as convenient markets would be able to have pools. Senator Manning answered that that is correct. However, he explained that many of them are already doing it now, but not doing it legally. Further, most of them don't even have a federal stamp.

Senator Kolstad wanted to know how the payout would be determined and Senator Manning answered that they had left that open so that the legislature could make that decision.

Senator Neuman asked if Senator Manning would object to the State asking for a percentage of the sports pools since there are some social costs involved in all types of gambling. Sen. Manning answered that he would not object to that, but some of the other people might. However, Sen. Manning reminded the Committee that anytime the State starts administering another program, it costs a lot to do that; and, that may outweigh the benefits of collecting a few dollars.

Sen. Kolstad asked Mr. Durkee to comment on that and Mr. Durkee answered that their experience with the State administering poker machines is a prime example of why they favor local governments getting their cut out of this. He noted that they are the ones who have to police these types of gambling, not the State. In any event, the State doesn't have the staff to police the liquor license programs and poker machines, let alone any other program.

Sen. Manning closed by stating that at the present time there are pools being conducted in the State of Montana that total up to \$30,000. There is no licensing required for these pools at all. There are a good many up to \$100 that are licensed, but they are licensed only at the federal level. He feels that this would be one way to make a good many of these people who are participating more credible because what they are doing would then be legal.

Sen. Neuman asked why the boards were expanded to places like grocery stores where there would be minors a great deal of the time; and, Sen. Manning answered that they are there already, minors just can't participate. Ms. McCue, Committee Researcher, concurred. Sen. Manning didn't feel

that this law would cause sports pools to spring up in every grocery store or cause a large increase of pools.

Sen. Boylan asked Ms. McCue if there is any penalty if the law isn't complied with. Ms. McCue replied that there is a penalty clause stating that it is a misdemeanor with a fine of not more than \$1,000, or jail not more than three months. It is up to the local peace officers and county attorney to enforce it. The penalty is stated in the statute, not this bill.

Sen. Thayer asked Sen. Manning if he saw this bill as a money maker for those people providing this type of service and whether under this bill (since they would not have to provide a 100% payout) a portion of whatever percent they were allowed to keep could be used for some sort of program within the county or locally governed area where the pools were licensed. Sen. Manning answered that for years these people have been providing the service without any actual payback to themselves. Under this bill they would be reciprocating themselves a small amount of what it costs.

EXECUTIVE ACTION ON HOUSE BILL NO. 122: Sen. Thayer made a motion that HB 122 BE CONCURRED IN. The motion was seconded by Sen. Neuman. The MOTION PASSED UNANIMOUSLY.

FURTHER DISCUSSION OF SENATE BILL 156: Chairman Kolstad stated that apparently an amendment will have to be made on this bill. Sen. Thayer felt that the Committee would have to either leave the language as is at the bottom of page two, to require the 100% payout, or make it a 95% payout. Otherwise, some persons would probably take advantage of it and keep a large portion. Sen. Kolstad agreed. Sen. Boylan suggested that perhaps they could make it optional up to a certain percentage.

Sen. Thayer moved that SB 156 BE AMENDED to require a 95% payout, and the title BE AMENDED to comply. Sen. Meyer seconded the motion. The MOTION that SB 156 BE AMENDED PASSED UNANIMOUSLY, and the suggested amendments were ADOPTED. ADOPTED unanimously.

FURTHER DISCUSSION OF SENATE BILL 156: Sen. Neuman suggested that perhaps the Committee look at another piece of legislation whereby if gambling is going to be expended, it would be used as a source of revenue and used for funding education or some of the other things that need funding. Chairman Kolstad noted that apparently from

the Fiscal Note they are assuming the bill will have no effect on the state government finances.

EXECUTIVE ACTION ON SENATE BILL 156: Sen. Boylan made a motion that SB 156 DO PASS AS AMENDED. The motion was seconded by Sen. Williams. The MOTION PASSED. Senators Neuman and Weeding requested to be recorded as voting NO.

FURTHER DISCUSSION OF SENATE BILL NO. 140: Sen. Williams noted that SB 140 was the bill concerning funding of the reserve loan loss fund sponsored by Sen. Mazurek. Keith Colbo, Dept. of Commerce spoke in opposition to the bill and Mr. Sullivan and Brown spoke in favor of it.

Chairman Kolstad stated that apparently the Fiscal Note that just came today does not indicate a large financial drain on their department.

Sen. Neuman stated that presently the amount that is in the loan loss fund is too small to cover what might be a loss. Mr. Colbo felt that to build the loan loss reserve now would take money from the general fund, and part of the loss, if there were one, would have to come directly out of the Coal Tax Fund anyway. With SB 140 it would take some time to build up the fund, and it wouldn't be large enough to do any good for several years. He felt since the loans have been pretty secure up to now, this should be postponed until other funding problems were solved, or at least until the next session. Sen. Neuman felt the fund should be built now because it is a good business practice.

Sen. Weeding wanted to know what the percentage would be and how that would be set, because the bill says up to 2%, and Chairman Kolstad answered that it appeared that the MED Board would make that decision based on what the risk factor would be.

Sen. Thayer wondered what difference it would make if the funds are earmarked for this purpose anyway. Sen. Neuman explained that the 25% that is used in the In-State Investment Pool and loaned to firms earns interest which is all deposited into the general fund, not to the MEDB. They want to divert 2% of that into a loan loss reserve fund. There is also a service fee for originating those loans which goes into the loan loss reserve. In addition to that, they want to take 2% of the interest earned for the loan loss fund rather than having 85% of all the interest go into the general fund. As it is now, 15%

goes to run the Board, which would not change, and 85% goes into the general fund.

Sen. Weeding stated that he recalled that if the bill authorizing the MED money to be invested in the capital corporations with the debenture process should pass, there would be a higher risk to those funds; and, if that is the case, it would be even more important to pass a bill such as this.

It was decided to delay action on SB 140 until the Committee has had time to give it further study.

DISCUSSION OF A POSSIBLE COMMITTEE BILL: Sen. Neuman stated that he had a request from the Department of Commerce to introduce a bill for emergency chartering of banks when a bank fails. The bill did not get introduced before the deadline. The bill would provide that when a bank fails, they could go through an emergency procedure and charter a bank and keep that bank open within a few hours so that the confidence of the community for the bank is not lost. This bill has the support of the banking community, both the large banks and the independent banks. Sen. Neuman stated that he had visited with many of the banking people and feels that the Committee might wish to make it a Committee Bill. He stated that he is aware of the banking bill that Sen. Thayer is introducing; however, he feels that the issue is important enough that this bill could cover the area in case that bill should fail.

Sen. Neuman made a MOTION that the Committee consider this as a Committee Bill. The Motion was seconded by Sen. Weeding.

Chairman Kolstad explained that the Motion would have to have unanimous support from the Committee.

Sen. Thayer stated that he felt that his bill does exactly the same and more and that this bill would not be needed, and might be a conflict.

Sen. Neuman did not agree that they were the same, but he stated that he only wanted this as a backup measure.

Sen. Walker suggested that the Committee accept the bill as a Committee Bill with the contingency that they only bring it out of this Committee if Sen. Thayer's bill fails.

Business and Industry Committee  
Page 8  
January 27, 1987

Chairman Kolstad explained that there is no deadline on Committee Bills and Sen. Neuman withdrew his Motion.

The next meeting of the Committee will be on Wednesday, January 28, 1987.

The meeting was adjourned at 11:05 a.m.

  
SENATOR ALLEN C. KOLSTAD, CHAIRMAN

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ROLL CALL

BUSINESS & INDUSTRY COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 1/27/87

NAME	PRESENT	ABSENT	EXCUSED
ALLEN C. KOLSTAD, CHAIRMAN	✓		
TED NEUMAN, VICE CHAIRMAN	✓		
PAUL BOYLAN	✓		
DELWYN GAGE			✓
HARRY H. McLANE	✓		
DARRYL MEYER	✓		
GENE THAYER	✓		
MIKE WALKER	✓		
CECIL WEEDING	✓		
BOB WILLIAMS	✓		

Each day attach to minutes.



# STANDING COMMITTEE REPORT

JANUARY 27,

19..... 87

MR. PRESIDENT

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

having had under consideration **SENATE BILL** No. **156**

**FIRST** reading copy ( **WHITE** )  
color

**ALLOW LOCAL GOV. TO LICENSE SPORTS POOL; UP LIMITS \$5  
CHANCE, \$500 PER POOL**

Respectfully report as follows: That **SENATE BILL** No. **156**

be amended as follows:

1. Title, line 10  
Strike: "DELETE REQUIREMENT"  
Insert: "PROVIDE"  
Following: "THE"  
Strike: "WINNER"  
Insert: "WINNERS"  
Following: "RECEIVE A"  
Strike: "100"  
Insert: "95"
2. Page 2, line 25.  
Following: "peel."  
Insert: "The winners of any sports pool shall receive  
a 95% payout of the value of the sports pool."

**AND AS AMENDED**

DO PASS

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~~XXXXXXXXXX~~

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**SENATOR KOLSTAD,**

Chairman.

# STANDING COMMITTEE REPORT

JANUARY 27, 19 87

MR. PRESIDENT

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

having had under consideration **HOUSE BILL** No. **122**

**THIRD** reading copy ( **BLUE** )

color

**PECE** ( *Thayer* )

**CHANGING STATE BANKING BOARD MEETING DATES AND  
BANK EXAMINATION FREQUENCY**

Respectfully report as follows: That **HOUSE BILL** No. **122**

**BE CONCURRED IN**

~~XXXX~~  
DO PASS

~~XXXXXX~~  
DO PASS

.....  
**SENATOR KOLSTAD**

Chairman.