

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 52nd LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON EDUCATION & CULTURAL RESOURCES

Call to Order: By **CHAIRMAN PECK**, on February 1, 1991, at 8:00 am

ROLL CALL

Members Present:

Rep. Ray Peck, Chairman (D)
Sen. Greg Jergeson, Vice Chairman (D)
Sen. Don Bianchi (D)
Rep. Larry Grinde (R)
Sen. H.W. Hammond (R)
Rep. Mike Kadas (D)

Staff Present: Skip Culver, Associate Fiscal Analyst (LFA)
Doug Schmitz, Budget Analyst (OBPP)
Melissa Boyles, Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion: **CHAIRMAN PECK** received a letter from Norma Bixby, Chairperson of the Montana Advisory Council (MAC) for Indian Education. Ms. Bixby thanked the subcommittee on behalf of the MAC for the positive recommendations regarding the Indian Education Specialist, in the Office of Public Instruction.

Skip Culver distributed a handout on Issues to be considered for OPI Executive Action. **EXHIBIT 1**

EXECUTIVE ACTION ON OFFICE OF PUBLIC INSTRUCTION

Tape No. 1

Greg Groepper distributed and reviewed a handout on Arbitrage Concept. **EXHIBIT 2**

Mr. Groepper stated that Terry Johnson, LFA, did a spread sheet that suggests there would be conservatively \$400,000 per year in the arbitrage process. OPI has submitted two bill drafting requests. One request would be to accomplish the advance in the pay back scheme with the fifty-five mills. The other request would allow the Superintendent of Public Instruction to charge costs associated with her responsibilities off against the foundation program.

Mr. Groepper stated that OPI staff have spoken with Ivan Small of

the PL-81-874 districts and he agrees that the Arbitrage concept would be advantageous to the PL-81-874 districts. County School Superintendents who in the beginning were nervous about this concept, are now supporting it as a good idea for the school districts.

CHAIRMAN PECK asked Mr. Groepper if he was saying that currently money is not getting the interest that it potentially could. **Mr. Groepper** stated that he hesitates to say that it is not. Prior to HB28 there were counties that would take the 55 mills and deposit it in the common school trust account but keep the interest earnings off that until the funds were distributed to the schools. HB28 made it clear that the process was inappropriate and that the interest earnings had to go to the Foundation Program. The money must now be deposited within three days and then the interest earnings accrue to that account. Now there is no legal way for the counties to earn any money off the Foundation Program for the County General Fund.

CHAIRMAN PECK asked if HB28 were fully operational would there be losers and winners. **Mr. Groepper** stated that there would be no financial losers. In some areas there would be reduced work load at the county level.

CHAIRMAN PECK asked Jim Gillett the Legislative Auditor to comment on what has been said. **Mr. Gillett** stated that a change like this would have a significant positive benefit on the work load. The need for accurate reporting on school district spending could be done by the state. There would be no need for the counties to estimate the revenues because it would be pooled statewide. From a communication and reporting standpoint, it would be a positive change. There are some districts that receive no State Foundation Program support. Their local 55 mill levy is enough. The cash flow for those districts is more difficult than those that get aid. The Legislature has authorized them to deal with that by allowing them to keep lower reserves. **CHAIRMAN PECK** asked if it would help those districts to have higher reserves. **Mr. Gillett** said yes. **REP. KADAS** asked Mr. Gillett if he was saying they could lower the reserve requirement. **Mr. Gillett** said it is something to consider.

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CHAIRMAN PECK asked if there were a downside in any way. **Mr. Gillett** said he has not seen the whole proposal and hasn't had enough time to check it out. **CHAIRMAN PECK** asked Mr. Gillett to study the proposal and get back to him.

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SEN. BIANCHI asked if the paperload would be increased on the state level. **Mr. Groepper** said it should lessen the paperload and the workload. If there is a catch it would be the concern of county officials about local control versus state control. **Mr. Groepper** said he is not trying to suggest that it wouldn't make some treasurers come in and say this is their money and they

don't like it. In reality this money is not county money, it is school money and because the county treasurer is going to get this money up front, it will not diminish their ability to do pool investments. It should enhance their ability because they will be guaranteed their money up front instead of having to wait for the 55 mills to come in.

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SEN. HAMMOND asked if there is a possibility in reducing the reserves for those schools that get all of their money right from their own taxation and 55 mills. **Mr. Groepper** stated that there is nothing in the drafted proposal to diminish the reserves of the school district.

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CHAIRMAN PECK said that in the memo (EXHIBIT 2) from Chuck Virag to Kathy Fabiano, he stated that the IRS is sensitive in this area, and may not see it being very productive. **Mr. Groepper** said the numbers shown in the memo are existing law and IRS rules. What Mr. Virag is saying is that the IRS may change their rules. What OPI asked them to do was to apply the state's current cash flow and the projected changes to the cash flow under this proposal and show the differences. The current rules allow the numbers. **CHAIRMAN PECK** stated that the assumption on which the Department of Administration base their response says that the IRS will not become more restrictive in FY92 and FY93. They also say that this may not be a very good assumption. **Kathy Fabiano** stated that the Department of Administration will not prevent OPI from issuing tax anticipation notes but the IRS has expressed some concern. **Ms. Fabiano** said it wouldn't prevent OPI from issuing the notes but it may prevent them from making the \$400,000 to \$700,000. **CHAIRMAN PECK** asked Ms. Fabiano what it would be if the IRS does prevent them from issuing the notes. **Ms. Fabiano** said OPI could still issue tax anticipation notes to finance a cash deficit in the General Fund, but they would have to have some kind of agreement that whatever the borrowing rate versus the arbitrage rate OPI would have to pay the federal government that money back. **CHAIRMAN PECK** stated that if that happened, the money the subcommittee puts into this would not have a revenue source. **Ms. Fabiano** agreed. **CHAIRMAN PECK** stated that they would then have to discuss what revenue source they could retreat to. **Ms. Fabiano** said the tax anticipation notes could still be issued to finance this proposal. **CHAIRMAN PECK** asked where OPI would turn to if it doesn't fund the positions in OPI. **Ms. Fabiano** said they'd have to go back to the General Fund or borrow from any other source. **Mr. Groepper** stated that by the time this is done there might be a significant reduction in overhead to the school districts and eventually to OPI. **SEN. HAMMOND** asked if Mr. Groepper has ever seen that done. **Mr. Groepper** said he has seen reduced workload as a result of a proposal but usually those people have a new job to do some place else so frequently they don't cut staff.

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SEN. JERGESON asked if the tax anticipation notes would be covered by the CAP that the Federal Government has put on each state on the amount of tax free bonds they can issue. **Mr. Groepper** said he does not know. **SEN. JERGESON** asked **Mr. Groepper** to find out. Since these are short term versus long term, it may make a difference.

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REP. KADAS asked what happens to the various interest flows. **Mr. Groepper** said that after it is collected in November and transmitted to State Treasurer in December the entire amount would earn interest in the Foundation. **REP. KADAS** asked if all the interest stays in the Foundation Program or goes to the General Fund. **Mr. Groepper** said, because of the way it is set up, there is also an interest expense.

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SEN. HAMMOND asked how many extra people it would take to carry out the proposal. **Ms. Fabiano** said it wouldn't take more than they currently have.

Kathy Fabiano said that the problem in OPI now is that they don't have enough people to keep up with the workload that the current system demands. OPI is constantly having to go backwards to make sure that they didn't over distribute. The audit report OPI received talks about the lost investment earning ability that the state has because that money sits out at the county until OPI figures out there is an over distribution. **SEN. HAMMOND** asked **Ms. Fabiano** if she is saying that OPI is going to save time, therefore, won't need any more staff. **Ms. Fabiano** said she is going to, hopefully, keep up with the workload.

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REP. GRINDE asked if this bill is scheduled. **Ms. Keenan** said it has been drafted but isn't completed. **CHAIRMAN PECK** said he thought the subcommittee should be there when the bill comes up. Since the bill is out there the subcommittee doesn't need to take any action on this now.

Ms. Keenan stated that they would like to move away from the practice of all curriculum specialists being paid by federal money and that **Kathy Fabiano** and **Greg Groepper** were very creative in coming up with a solution to fund one of their own requests. **Ms. Keenan** urged the subcommittee to take a serious look at the Curriculum Specialist. **CHAIRMAN PECK** stated that this is the first time anyone has come in and said they need this, and they can pay for it this way.

CHAIRMAN PECK asked **Ms. Fabiano** to give the subcommittee a brief review on indirects as another option to fund what has been requested.

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Ms. Fabiano stated that OPI uses indirect cost off all of the Federal Programs as well as the State Special Revenue Programs. OPI draws indirects off Federal and State Special Programs to fund certain indirect costs within OPI. Examples of indirect costs funded that way are accounting, budgeting, services, mail delivery, and personnel. The personnel program is funded with an indirect funded off the other programs. The rate that is used is approved by the federal government. What this plan does is to take the most recently completed fiscal years expenditures within OPI and take the amount of those that are considered indirect costs and take those as a percentage of the direct cost. This same rate is applied against the State Special Programs as well. **Ms. Fabiano** stated that the state draws indirects off the State Special Revenue funds that receive their own interest. The Department of Administration can also take indirects off the Foundation Program and use them to fund functions over in the Department of Administration. They do this by having the Board of Investments deduct the indirect costs off the investment earnings to the Foundation Program before OPI receives those earnings. **Ms. Fabiano** distributed and reviewed a handout on indirect costs. **EXHIBIT 3**

CHAIRMAN PECK asked if this in any way generates new money. **Ms. Fabiano** said no, it just allows OPI to fund the costs out of a State Special Revenue Fund rather than from the General Fund.

Budget Modifications

CHAIRMAN PECK stated that OPI requested that programs 01, 05 and 06 be combined into a single program for appropriation purposes.

CHAIRMAN PECK reviewed attachment "A" of **EXHIBIT 1** regarding state and federal revenues. **CHAIRMAN PECK** asked **Skip Culver** if Attachment "A" was new estimates. **Mr. Culver** said yes. **CHAIRMAN PECK** asked if this was for budget authority for the expenditure of federal funds. **Mr. Culver** pointed out that this also included 5 FTE.

REP. KADAS asked if any of the FTE's were new. **Mr. Culver** said they were all new. **Ms. Fabiano** said that some of the FTE were added through budget amendments in the current biennium, but they are not in the base.

CHAIRMAN PECK said that a motion for this would put the 5 FTE into the base. This is subject to the revenue arriving at that level; if the revenue doesn't arrive they have to take care of it.

REP. KADAS asked if it would be appropriate to have a motion to do them all. **CHAIRMAN PECK** said he thinks they can be incorporated into one motion. **Mr. Culver** said that would simplify things.

Motion: REP. KADAS moved to adopt the federal funding modifications, Attachment A.

Discussion: REP. GRINDE asked if it was all federal money that they would approve the spending authority on. CHAIRMAN PECK said yes.

Vote: MOTION CARRIED unanimously.

State Special Revenue

CHAIRMAN PECK asked what the state special fund is in the coop food purchases. Ms. Fabiano said this is a state special revenue fund. OPI has a cooperative food purchase where they get one bid for all the school districts. That bid is received at a much cheaper rate because there is a larger order.

Motion/Vote: SEN. JERGESON moved to adopt State Special Revenue, Program 06 Coop Food Services, \$12,500 FY92 and \$13,532 in FY93. MOTION CARRIED unanimously.

Vocational - Education Administration

Mr. Culver stated that the Office of the Commissioner of Higher Education requested in its budget presentation that the committee fund some of the administrative costs for Vo-Ed, specifically Brady Vardemann, with General Fund. If the subcommittee funds the positions in the Commissioners Office for \$83,000 per year General Fund, that would free up \$93,000 in Carl Perkins funds which could be given to OPI. CHAIRMAN PECK stated that the action in the Commissioners Office would be to do it with General Fund money because they think federal dollars are suspect. Mr. Culver said yes, they don't feel that their staff should be using Carl Perkins funds for Vo-Ed. REP. KADAS asked what the additional General Fund increase would be. Mr. Culver said it would have to match dollar for dollar. When the Vo-Ed budget was reduced, Carl Perkins Administration requires a dollar for dollar match so if the subcommittee were to free up \$93,000 in Carl Perkins Funds from the Commissioners Office and put it in OPI than they would have to match half of \$93,000 General Fund. Mr. Culver said if Carl Perkins had not changed, OPI would still be getting the General Fund that was taken out. For every dollar of federal funds taken out, a dollar of General Fund had to be taken out also. REP. KADAS asked if that is why two slots were gone in OPI. Mr. Culver said yes.

SEN. HAMMOND asked what the two slots were used for. Mr. Culver said the OPI budget had to be reduced so the two positions were taken out arbitrarily to get the budget within the level of funding available. CHAIRMAN PECK said when the federal dollars were lost there was no justification for keeping the matching state dollars, so those were backed out. REP. KADAS asked if when the federal funding is taken out of the Office of Higher Education and put it into OPI then OPI is the same as it

was. **Mr. Culver** said the subcommittee could give them more than what they had lost.

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Doug Schmitz said that Brady Vardemann testified the other day that her position is currently funded 50/50 with General Fund and Carl Perkins monies. The Regents do not believe that because of Brady's overall job description that it should be paid 50% with Carl Perkins and 50% with General Fund. She is the administrator of all the Vo-Techs, not just the Carl Perkins Program. **Mr. Schmitz** said he believes that is the justification the Regents were using to fully fund her position with General Fund and release some of the other monies.

SEN. HAMMOND asked if there was a match in the Board of Regents, how much of that was Carl Perkins. **Mr. Schmitz** said it would be dollar for dollar whatever she was getting. **CHAIRMAN PECK** asked if this was presented to OBPP as an issue. **Mr. Schmitz** said it was early on. **CHAIRMAN PECK** asked what position they took. **Mr. Schmitz** said they did not fund it at the time. The Carl Perkins monies at the time were designated in the current unrestricted fund. **REP. KADAS** asked what OBPP's position is now. **Mr. Schmitz** said their position is still the same. **REP. KADAS** asked if that was to cut two positions at OPI and continue to fund half of the Commissioners positions with Carl Perkins Money. **Mr. Schmitz** said he doesn't believe their was a reduction in FTE proposed in their budget for OPI as it relates to the Vo-Ed program and the Job Training Partnership Act. **CHAIRMAN PECK** asked **Mr. Schmitz** if in light of the more recent information would it be reasonable to assume that OBPP would say they have to comply to the federal law. **Mr. Schmitz** said at this stage he is not in a position to assume. The Executive Budget had prioritized its MOD request that had been presented to the OBPP. This particular area of Vocational Education to be funded with General Funds. **CHAIRMAN PECK** said he is supportive of the Executive Budget until the Executive changes position on revenue, but the committee can't sit here and vote contrary to what new federal law is imposing and what the Commissioner is advising us would be very questionable in his mind to continue use of those funds. **Mr. Schmitz** said the issue was addressed when the Regents proposed \$570,000 of the discretionary money to replace the Carl Perkins money. **CHAIRMAN PECK** said he understands that **Mr. Schmitz** cannot take a stand personally and asked if he was saying there had been no change upstairs. **Mr. Schmitz** said there hadn't been any change.

SEN. HAMMOND asked where the \$93,000 came from. **Mr. Culver** said it was \$46,000 per year, half of that was Brady's salary and then there were two other positions in the Commissioners Office that were 50/50 Carl Perkins and General Fund. **SEN. HAMMOND** stated that the \$46,000 in OPI would have to be matched so OPI would be getting \$46,000 and the Commissioners Office would be getting \$46,000. **Mr. Culver** said that the Commissioners office is asking for an increase of \$83,000 in General fund each year of the

biennium. **CHAIRMAN PECK** said they are giving up \$93,000 and are asking for \$167,000.

REP. KADAS asked why the Commissioners Office needs an additional \$37,000 per year in their budget. **Mr. Culver** said he doesn't know.

SEN. HAMMOND asked what the committee is funding in OPI. **Mr. Culver** said LFA reduced OPI budget for Vo-Ed by \$20,000 less than the Governor in the first year and \$115,000 less in the second year because of the loss of Carl Perkins Funds.

CHAIRMAN PECK asked if the Commissioner had talked to OPI about that proposal. **Ms. Gray** said that it was not discussed formally. There were rumors and OPI knew they wanted to move Brady's salary to General Fund and were looking for any option to keep them whole.

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SEN. HAMMOND asked Ms. Gray if this would help make a difference in the people they can maintain. **Ms. Gray** said if they were able to get this money, OPI would not have to release 2.5 FTE. **REP. KADAS** asked how many slots are in this area now. **Ms. Gray** said there are five slots.

SEN. HAMMOND asked Ms. Gray what would happen to OPI if the subcommittee didn't do anything with it. **Ms. Gray** said they would have to reduce the staff at OPI. **SEN. HAMMOND** asked if they had been funded before. **Ms. Gray** said yes. **SEN. HAMMOND** asked if the two positions were in the LFA budget. **CHAIRMAN PECK** said they are not in the LFA but they are in the Governor's Budget.

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REP. GRINDE asked how much General Fund money it would take to keep OPI whole. **CHAIRMAN PECK** said it would be \$93,000. **Mr. Culver** said the difference would be \$160,000 over the biennium. The LFA is \$44,000 less in FY92 and \$115,000 less in FY93. They would need approximately \$80,000 Carl Perkins and \$13,000 General Fund over the biennium to keep them whole. **REP. KADAS** asked if there was another \$13,000 available if they put up \$13,000 in General Fund money. **Mr. Culver** said yes. **REP. GRINDE** asked if they could use the \$13,000 somewhere else. **Mr. Culver** said it would have to be used in Administration. **REP. KADAS** asked if it had to be used in the Commissioners Office. **CHAIRMAN PECK** said the Commissioner is saying that because of the change in the law the federal dollars are inappropriate in the Commissioners Office.

Tape No. 2

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SEN. JERGESON said he thinks that the subcommittee could decide today if they want to make OPI whole with \$80,0000 and not answer

the question of the \$13,000. **CHAIRMAN PECK** agreed.

Motion/Vote: **REP. KADAS** moved to take the LFA Current Level to the Executive Budget Level by adding \$44,388 in FY92 and \$115,115 in FY93 subject to further adjustment after the subcommittee hears the Commissioners Office. **MOTION CARRIED 5/1 REP. GRINDE** voting no.

Curriculum Specialist

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REP. KADAS asked if these positions had been paid with federal money. **Ms. Gray** said yes, half with other federal money and half with chapter 2. **REP. KADAS** asked what OPI is suppose to be doing with the federal money. **Ms. Gray** said there are many areas the money should be going. An example would be working with at risk students, and implementing an effective schools program. **Ms. Keenan** stated that there is, by Federal Chapter 2 money, an Advisory Council comprised of people from all over the state and they have recommended using that money in the ways that Gail has suggested. Since it is an Advisory Council, as Superintendant she has taken that suggestion and said it is off setting General Fund and we can't do that.

SEN. JERGESON asked if Chapter 2 is not off set, is the Federal Government going to take the money away. **Ms. Keenan** said that is a possibility. **CHAIRMAN PECK** asked where the money that would be saved in terms of salaries in Chapter 2 would go. **Ms. Gray** said it would go for a number of different programs, additional curriculum development, at risk programs at a local level, etc. **CHAIRMAN PECK** asked **Ms. Gray** if she was referring to pass through funds in the Chapter 2 programs. **Ms. Gray** said they would use a substantial portion for pass through. OPI did some of that in terms of providing four different Grants for a consortium in rural schools to assist them in curriculum development.

The committee recessed at 10:30 to listen to an announcement by the Governor relating to education.

CHAIRMAN PECK asked if this was in the OBPP too. **Doug Schmitz** said he didn't believe so. **CHAIRMAN PECK** said it is in excess of the Executive Budget. **Ms. Keenan** stated that at that time OPI did not have the arbitrage suggestion. **CHAIRMAN PECK** said that if the subcommittee accepts the arbitrage idea then this would be taken care of.

Mr. Groepper distributed and reviewed a copy of the spread sheet that Terry Johnson from the LFAs Office did on the Arbitrage concept.

REP. GRINDE asked OPI if they would need General Fund money. **Mr. Groepper** said the earnings from the arbitrage would be General Fund. **REP. GRINDE** asked if the arbitrage brought in \$480,000 in

FY92 and \$482,000 in FY93 would it be a wash to the General Fund. **Mr. Groepper** said yes, the revenue is not in any of the projections. **CHAIRMAN PECK** said the motion could take that form that this would be approved subject to arbitrage earnings. **REP. GRINDE** asked if there was any way to get any closer to determining the arbitrage earnings. **Mr. Groepper** said no, because of the variability of revenues coming into the state and the cash going out to pay all the obligations of the state it is somewhat driven by the cash flow. **REP. GRINDE** asked what OPI wanted to use the excess arbitrage for. **Mr. Groepper** said if there is more than \$482,000 in arbitrage OPI would like to put that in the Gifted and Talented proposal. OPI proposes to increase the level of funding up to a level consistent with surrounding states.

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SEN. JERGESON said that if the arbitrage bill passes the Legislature the Revenue Oversight Committee develops the final revenue estimates toward the end of the session. The conference committee than balances the budget, they will then plug in a final figure. Because it is not earmarked it will go into General Fund. **Ms. Keenan** stated that the subcommittee might consider language tying it to the arbitrage bill. **SEN. JERGESON** said that **Ms. Keenan** is suggesting putting a coordinating clause to the arbitrage bill. **REP. GRINDE** asked what happens if the bill does not pass. **CHAIRMAN PECK** said it would come out and OPI would remain in the same situation they are in now. **Ms. Keenan** said they would have to reduce their curriculum staff. **REP. KADAS** said he is not real fond of a coordinating clause; he would prefer that the final conference committee knew what was going on and if that bill fails he wants to see the money pulled out. **CHAIRMAN PECK** stated that a coordinating clause would be recognizable and wouldn't be lost.

REP. GRINDE stated that if the subcommittee is satisfied with the arbitrage then this subcommittee should help pass this bill. Are there other things that OPI could use the extra arbitrage money on? **Ms. Keenan** stated that the curriculum specialist is her priority at this point. **CHAIRMAN PECK** asked if **Ms. Keenan** wants to name her second and third priority. **Ms. Keenan** said Special Education and Gifted and Talented are very important programs.

REP. GRINDE asked if the Curriculum Specialist is funded and doesn't direct the money to any programs where does it go. **Ms. Keenan** said to the General Fund. **CHAIRMAN PECK** said he feels they need to deal with the question of whether this subcommittee wants to buy into the arbitrage or the indirect cost. It is significant to the members vote.

Ms. Keenan stated that the FTE that OPI has now is lower than what they had ten years ago. **SEN. HAMMOND** asked what it is since **Ms. Keenan** came. **Ms. Keenan** said it is the same, current level.

REP. GRINDE asked if there was less money in the General Fund would they have to make up for it. Mr. Groepper said yes.

Motion: REP. GRINDE moved to adopt the proposal for arbitrage, subject to coordinating clause, fund the Curriculum Specialist at \$480,367 in FY92 and \$482,101 in FY93. Do not include Gifted and Talented in this motion.

REP. KADAS said that if they start fixing the amount generated by arbitrage they would get into a real mess. They need to pick a number and stick with it and hope the arbitrage generates at least that. REP. GRINDE asked if they would make that up with General Fund. REP. KADAS said if the Arbitrage does not come in then they are obligated to the General Fund by that much. SEN. JERGESON said the only way to fix it to the exact amount of Arbitrage would be to earmark it and he didn't think the subcommittee wants to get into that. SEN. HAMMOND said if it's over the amount it goes in General Fund; if it is under that amount the General Fund makes it up.

Mr. Groepper said that the absolute low side to the arbitrage is \$400,000 and that doesn't include the \$300,000 that the Department of Administration can earn on selling 50 million in trans. SEN JERGESON asked if the total Arbitrage package for the Department of Administration would be \$700,000. Mr. Groepper said yes. They could earn \$300,000 this year which would go into the General Fund. If the bill draft passes then the lowest figure they have is \$400,000 per year, so looking at it altogether there is more money in this than is being spent on the Curriculum Specialist.

Vote: MOTION CARRIED unanimously.

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Skip Culver asked if the motion just passed would replace federal funds. CHAIRMAN PECK said the federal funds would go on the pass through. Mr. Groepper said that OPI spending authority would increase by the same amount. Mr. Culver asked if the federal funds needed to be moved to program 09. Ms. Gray said that all of the money would not be pass through, and some will be pass through on competition.

Gifted and Talented

Motion/Vote: REP. KADAS moved to add \$100,000 per year to the Gifted and Talented Program.

Roll Call Vote: MOTION FAILED 3/3 REP. GRINDE, SEN. HAMMOND, AND REP. PECK voting no.

Transportation Aid

CHAIRMAN PECK asked if OPI just needs to add the supplemental amount being requested. **Ms. Fabiano** said the supplemental amount is in current level and based on the most recent information OPI has, current level will not be an adequate amount to distribute 100% of the statutorily required payments to school districts. **CHAIRMAN PECK** asked if the supplemental is in current level. **Mr. Groepper** said no the \$6.252 million given to the subcommittee for transportation now needs to be \$6.43 million, an increase of \$230,226.

Motion/Vote: **REP. KADAS** moved to add \$6,483,120 in FY92 and 6,493,588 in FY93 for transportation. **MOTION CARRIED** unanimously.

Language for Contingency Fund

SEN. JERGESON asked if the language would change if the subcommittee were to accept a percentage instead of the \$500,000 contingency. **Ms. Fabiano** said no, the language does not have a dollar amount in it. This is just language saying that the appropriation is biennial. **CHAIRMAN PECK** asked if 8 A were needed if 8 B were adopted. **Mr. Groepper** said they would like to be able to have an option on a range of contingency. **CHAIRMAN PECK** said that if the committee were to adopt the idea that contingency were a percentage of the total, you could still carry forward the amount of the specified amount for contingency. **Mr. Groepper** said that is what OPI would like to do, but they don't want to tie their hands with a bigger number for contingency.

Contingency Appropriation

Motion/Vote: **SEN. JERGESON** moved to add contingency in general special education funds into one account. **MOTION CARRIED 5/0** **REP. KADAS** absent.

CHAIRMAN PECK stated that it is up to the subcommittee to decide what percentage the contingency should be. **Mr. Groepper** said that OPI would like to have up to three percent of the appropriation that could be used. **CHAIRMAN PECK** asked if they would be leaving themselves open for a lot of pressure on their contingency fund. **Ms. Gray** said it is a possibility, but it allows OPI to budget much tighter.

Motion: **SEN. BIANCHI** moved to allow up to 3% as a contingency fund for special education purposes and that this fund be appropriated on a biannual basis.

Discussion: **SEN. BIANCHI** asked if they wanted this as a biennial appropriation. **Mr. Groepper** said they would like any unspent amount of the contingency to be biennially appropriated.

SEN. JERGESON asked if the boiler plate language is consistent with the two motions. **Mr. Groepper** said there doesn't appear to be a problem.

Vote: MOTION CARRIED 5/0 REP. KADAS absent.

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Motion/Vote: SEN. HAMMOND moved to adopt the LFA Current Level on Program 09. MOTION CARRIED 5/0 REP. KADAS absent.

Mr. Culver asked how the three percent contingency appropriation is accounted for. Ms. Fabiano said she expects the budget office to establish two appropriations for special ed. OPI would be free to move back and forth up to 3%.

Traffic Education

Motion/Vote: SEN. BIANCHI moved to add the addition of language, subject to coordination with the traffic education bill. MOTION CARRIED unanimously all members present.

Other Issues

Motion/Vote: SEN. HAMMOND moved to adopt Computer Networking Fees, Mainframe processing and audit fees. MOTION CARRIED unanimously.

SEN. HAMMOND asked why the subcommittee has to combine Programs 01, 05, and 06. Mr. Groepper stated that HB2 states how much money can be spent in the Programs 01, 05, and 06. Because of this OPI cannot change priorities with the three programs.

Motion/Vote: SEN. BIANCHI moved to combine Programs 01, 05, and 06 into one Program. MOTION CARRIED unanimously.


CHAIRMAN PECK asked if there were any other issues OPI would like to discuss. Mr. Groepper said that OPI would like transportation to be funded out of the Foundation Program. This would make it state special revenue and OPI could come in for a budget amendment when the transportation costs go up. Just by changing the funding source it would make it easier for the Legislature to know what is going on, on a continuing basis and never have to short the schools. Right now the current level in transportation is over in General Fund, this doesn't cost anymore money under the Governor's proposal. CHAIRMAN PECK asked if they wanted this in the equalization account so OPI could deal with it through a budget amendment. Mr. Groepper said yes. REP. KADAS stated that a bill would be needed to do that. Mr. Groepper stated there is a bill to change the funding of transportation and it could possibly be put in with it. CHAIRMAN PECK said the subcommittee cannot do what statute doesn't provide for and the statute doesn't provide for this now. Mr. Groepper asked if the subcommittee was in agreement with the concept. CHAIRMAN PECK stated that he felt it is a better way of doing it. The budget amendment process is there and available for OPI and the subcommittee doesn't have to get involved with this question every session. REP. KADAS said the Foundation Program is currently used as the basis for figuring guaranteed tax space

(GTS) and asked if we are going to be saying that transportation now contributes to the base for GTS. Mr. Groepper stated that the base for figuring GTS entitlement is determined by the county wealth and A & B. REP. KADAS stated that GTS is determined by the schedule amount and special ed. amount and asked if OPI is proposing that this include the transportation amount. Mr. Groepper said no, OPI just wants to be able to get the Finance Committee to adjust the actual cost of this program and OPI cannot do that with the General Fund. REP. KADAS asked if they had thought about doing it. Mr. Groepper said he hasn't thought about it. CHAIRMAN PECK asked how the committee feels about this change. The subcommittee said they didn't have a problem with the proposal.

ADJOURNMENT

Adjournment: 11:35 a.m.


REPRESENTATIVE RAY PECK, Chair


MELISSA J. BOYLES, Secretary

RP/mjb

HOUSE OF REPRESENTATIVES

EDUCATION SUBCOMMITTEE

ROLL CALL

DATE

2-1-91

NAME

PRESENT

ABSENT

EXCUSED

REP. RAY PECK, CHAIRMAN	✓		
SEN. GREG JERGESON	✓		
REP. LARRY GRINDE	✓		
SEN. DON BIANCHI	✓		
REP. MIKE KADAS	✓		
SEN. H.W. "SWEDE" HAMMOND	✓		

SUBCOMMITTEE ON EDUCATION & CULTURAL RESOURCES

OFFICE OF PUBLIC INSTRUCTION

February 1, 1991

Additional issues to be considered:

1. Explanation and discussion of General Fund arbitrage earnings on Tax and Revenue Anticipation Notes (TRANS) and proposed funding of administrative costs with indirect charges.
2. The Office of Public Instruction has requested that programs 01, 05 and 06 be combined into a single program for appropriation purposes.
3. Increased state and federal revenues included in the executive budget as budget modifications. Attachment "A"
4. Vo - Education Administration (Carl Perkins)
The LFA current level is \$44,388 less than the Exec Budget in FY92 and \$115,115 less in FY93 due to the reduction of Federal Carl Perkins funds for Administration. This resulted in a equal reduction in general fund since the Carl Perkins funds are matched with general fund. The LFA reduced Vo Ed Administration funds and general funds from the FY90 actual level of expenditures, whereas the Exec budget is based upon FY91 and inflated.
5. Curriculum Specialist
OPI has requested that the Curriculum Specialist (presently in program 06) be funded from the general fund, extra earnings from arbitrage or from an indirect charge on the foundation program. Presently this program is funded from federal Chapter 2 monies. OPI has requested the following amounts:

FY92: \$480,367
FY93: \$482,101
6. Executive Action on program 09, Distribution to schools.
Proposed Program modifications
 - a. Foundation Program inflation
 - b. Guaranteed Tax base inflation
 - c. Special Education inflation: \$4,600,000 per biennium from the general fund. (Biennial Appropriation)
 - d. Gifted and talented: \$1,500,000 per biennium from the general fund.
- 7.a. Update appropriation for transportation aid to the most recent estimate of statutorily required payment.
- 7.b. Fund transportation out of the state equalization aid account; increase general fund transfer to the state equalization aid account accordingly.
- 8.a. Option 1: Add language for special education contingency funds, making the appropriation a biennial appropriation

and stating the requirements for awarding contingency funds.

- 8.b. Option 2: Include special education contingency appropriation as a percentage of the total general fund appropriation for Special Education.
9. Proposed language as follows: "all revenue received in the state traffic education account under the provisions of 20-7-504, MCA is appropriated as provided in 20-7-506, MCA.

OTHER ISSUES:

1. The General government subcommittee has adopted the Executive fixed costs for network fees, the Executive deflation factor for mainframe processing, and the Executive fixed costs for audit fees. The subcommittee should pass a general motion adopting these factors in all budgets reviewed.

EXHIBIT 1
 DATE 2-1-91
 HB Ed ✓ Cur. Rev. Del

ATTACHMENT "A"

OFFICE OF PUBLIC INSTRUCTION
 FEDERAL FUNDING MODIFICATIONS

PROGRAM 06	FTE	FY92	FY93	BIENNIAL
AIDS EDUCATION	1.5	\$99,000	\$99,000	\$198,000
BILINGUAL GRANT	0.5	25,000	25,000	50,000
DRUG FREE SCHOOLS	2.0	132,490	132,490	264,980
RACE EQUITY		25,000	25,000	50,000
EHA-B ADMIN		300,000	342,000	642,000
CHAPTER 1 ADMIN		50,000	50,000	100,000
MIGRANT GRANTS		320,000	320,000	640,000
ESEA CHAPTER 2		141,843	141,843	283,686
NATIONAL ORIGINS	0.5	0	0	0
NET GRANT		12,500	12,500	25,000
SCHOOL FOODS	0.5	0	0	0
BICENTENNIAL COMPET		7,500	7,500	15,000
CSSO		10,000	10,000	20,000
MCKINNEY HOMELESS		4,014	5,733	9,747
STAR SCHOOLS		243,247	61,526	304,773
BUS SAFETY		28,934	14,301	43,235
TEACHER EDUCATION		3,000	0	3,000
GEOGRAPHY BEE		3,000	3,000	6,000
TOTAL PROGRAM 06	5.0	\$1,405,528	\$1,249,893	\$2,655,421
PROGRAM 09	0	90,000	90,000	180,000

STATE SPECIAL REVENUE				
PROGRAM 06	FTE	FY92	FY93	BIENNIAL
COOP FOOD PURCHASES	0	12,500	13,532	26,032

ATTACHMENT "B"
SUBCOMMITTEE ON EDUCATION AND CULTURAL RESOURCES
OFFICE OF PUBLIC INSTRUCTION
EXECUTIVE ACTION JANUARY 16, 1991

PROGRAM 01	VOTE	FY92 FTE	FY92 TOTAL	FY92 GENERAL FUND	FY92 OTHER FUNDS	FY93 FTE	FY93 TOTAL	FY93 GENERAL FUND	FY93 OTHER FUNDS
ADOPTED LFA BASE	6-0	16.0	711,000	681,092	29,908	16.0	710,890	680,979	29,911
INCREASE TRAVEL	6-0	0.0	10,041	10,041	0	0.0	10,512	10,512	0
PROGRAM TOTAL		16.0	721,041	691,133	29,908	16.0	721,402	691,491	29,911
PROGRAM 05	VOTE	FY92 FTE	FY92 TOTAL	FY92 GENERAL FUND	FY92 OTHER FUNDS	FY93 FTE	FY93 TOTAL	FY93 GENERAL FUND	FY93 OTHER FUNDS
ADOPTED LFA BASE	6-0	32.9	1,862,889	1,037,206	825,683	32.9	1,834,392	1,014,326	820,066
HB28 ACCOUNTING	6-0	4.0	177,824	177,824	0	4.0	178,558	178,558	0
INCREASE CONTRACTED SERVICES	6-0	0.0	72,480	36,240	36,240	0.0	72,480	36,240	36,240
INCREASE TRAVEL	5-1	0.0	18,803	18,803	0	0.0	18,770	18,770	0
INCREASE EQUIPMENT TO EXEC	4-2	0.0	20,000	10,000	10,000	0.0	20,160	10,080	10,080
CORRECT LFA FUNDING ERROR	6-0	0.0	0	42,366	(42,366)	0.0	0	42,245	(42,245)
CONFERENCE FEES	6-0	0.0	46,000	46,000	0	0.0	15,000	15,000	0
FINANCIAL MGT & DATA PROC	4-2	6.0	352,981	280,681	72,300	6.0	290,958	230,688	60,270
RESOURCE CENTER FUND BALANCE	6-0	0.0	8,000	0	8,000	0.0	0	0	0
PROGRAM TOTAL		43	2,558,977	1,649,120	909,857	42.9	2,430,318	1,545,907	884,411
PROGRAM 06	VOTE	FY92 FTE	FY92 TOTAL	FY92 GENERAL FUND	FY92 OTHER FUNDS	FY93 FTE	FY93 TOTAL	FY93 GENERAL FUND	FY93 OTHER FUNDS
ADOPTED LFA BASE	6-0	73.1	3,991,950	1,093,515	2,898,435	71.6	3,921,046	1,060,099	2,860,947
INCREASE CONTRACTED SERVICES	6-0	0.0	26,614	0	26,614	0.0	26,614	0	26,614
INCREASE EQUIPMENT TO EXEC	4-2	0.0	20,194	20,194	0	0.0	20,194	20,194	0
INCREASE TRAVEL TO EXEC	6-0	0.0	4,518	0	4,518	0.0	4,518	0	4,518
ADD CHAPTER 1 FTE	6-0	1.0	35,741	0	35,741	1.0	35,741	0	35,741
AUDIOLOGY PROGRAM	6-0	0.0	218,000	136,000	82,000	0.0	0	0	0
INDIAN EDUCATION SPECIALIST	4-2	0.0	24,071	24,071	0	0.0	23,997	23,997	0
GENDER EQUITY	4-2	0.5	27,588	27,588	0	0.5	27,588	27,588	0
PROGRAM TOTAL		74.6	4,348,676	1,301,368	3,047,308	73.1	4,059,698	1,131,878	2,927,820
AGENCY: TOTAL LFA BASE		121.9	6,565,839	2,811,813	3,754,026	120.4	6,466,328	2,755,404	3,710,924
AGENCY: TOTAL ADDITIONS		11.5	1,062,855	829,808	233,047	11.5	745,090	613,872	131,218
TOTAL BASE + ADDITIONS		133.4	7,628,694	3,641,621	3,987,073	131.9	7,211,418	3,369,276	3,842,142

OPI EXECUTIVE ACTION

JANUARY 16, 1991

SEN. HAMMOND moved to reconsider action on item #2 in Education Program in the MSDB
Motion carried unanimously

REP. KADAS moved that we reverse our actions on the \$20,000 per year in building maintenance item 2 education Program 04 and inform the school to pursue the matter with the Long Range Building Institute.
Motion carried unanimously

Program 5

REP. KADAS moved program 1 for 711,000 in FY92 710,890 in FY93
Motion carried unanimously

REP. KADAS moved to Adopt the Governors Level in Program 01 for \$10,041 FY92 and \$10,512 in FY93.
Motion carried unanimously

REP. KADAS moved the LFA Current Level at 1,862,889 for FY92 and 1,834,392 for FY93 (Program 5)
Motion carried unanimously

REP. KADAS moves to Adopt Issue #1 as recommended by the Executive for 177,824 for FY92 and 178,558 for FY93. (Program 5)
Motion carried unanimously

VICE CHAIR JERGESON moves \$36,240 for each year of the biennium (will track based on House Appropriations) (Program 5)
Motion carried unanimously

REP. KADAS moved the Executive level for both years of the biennium for \$18,803 FY92 and \$18,770 in FY93
Motion carried 5/1 (Program 5)

REP. KADAS moved the Executive level for Item #4 for \$10,000 per year (Program 5)
Motion carried 4/2

REP. KADAS moved to put \$42,366 FY92 and \$42,245 in FY93
Motion carried 6/0 (Item #5, Program 5)

REP KADAS moved to Priority #1 in General Fund for \$46,000 in FY92 and FY93
Motion carried unanimously

REP. KADAS moved to keep two Budget Officers and cut others in 1/2. (Program 5)
2 Proprietary positions
4 General Fund
Motion carried 4/2, Chair voting No

SEN JERGESON moves the adoption of the Resource Center Priority 1 Exec. Budget modification for \$8,000 in FY92 and \$0 in FY93
Motion carried unanimously (Program 5)

Program 6

SEN. BIANCHI moves the adoption of the LFA for \$3,991,950 FY92 and \$3,921,046 for FY93
Motion carried 5/0 with REP. KADAS absent and not voting

REP KADAS moves to adopt the \$20,194 increase in each year of the Biennium to bring the equipment amount up to the Executive Budget
Motion carried 4/2

SEN. BIANCHI moves the adoption of the Executive Budget, travel (federal money only)
Motion carried unanimously

SEN. JERGESON moved to restore Chapter 1 funds and 1 FTE for \$35,741 FY92 and \$35,620 for FY93
Motion carried unanimously

Priority 1: Special Education Staffing (2.0 FTE) (Gen. Fund)
No Action

SEN BIANCHI moves that we accept the Executive Budget for FY92 \$68,000.

SEN BIANCHI withdraws motion

SEN JERGESON moves the Biannual appropriation to \$218,000, with \$136,000 of which would be General Fund balance would be other funds.

* Language to be put into the bill indicating that permission to submit budget amendment is encouraged.
Motion carried unanimously

Priority 1: Accreditation 1.0 fte (General Fund) NO MOTION

SEN. JERGESON moves to increase General Fund for FY92 to \$24,071 and \$23,997 for FY93 for Indian Education Specialist.
Motion carried 4/2

REP. KADAS moved to adopt gender equity which would add 1/2 time FTE 27,588 in FY92 and 27,588 in FY93
Motion carried 4/2

Priority 3: At risk early childhood, NO MOTION

SEN. JERGESON motion to adopt at risk rural for \$66,118 total biennium (no FTE)
Motion failed 2/4

OFFICE OF PUBLIC INSTRUCTION

1/31/91

Arbitrage Concept

Because the state is a tax exempt entity, when it sells Tax and Revenue Anticipation Notes (TRANS) to finance expenditures, it can sell them at a "tax exempt" rate. When the state invests the note proceeds, it can invest at the "market" rate which, at this time, is running about 2% above the tax exempt rate.

For example, if the state needed to borrow \$50,000,000, it could sell notes at 4.5% interest rate and invest the money at 6.5%, earning the spread (2.0%) on the unexpended balance.

Proposal

With the support of the sub-committee, the Office of Public Instruction proposes the following process for the foundation program:

1. Districts would be "advanced" the full amount of their entitlement for the foundation and GTB payments using the same schedule as in law (20% in July and 7% each succeeding month). The present practice reduces their total entitlement by the amount the 55 mills is expected to generate locally. When the 55 mills are levied in November, the counties would use that revenue to repay the advance.
2. Because the revenue does not come in until November, the state will not have enough cash to meet all the payments before the cash comes in, so it can sell notes and arbitrage the proceeds.

Advantages

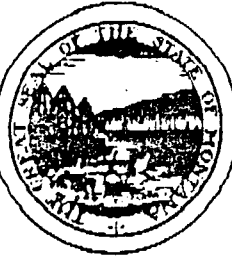
1. Schools get their money earlier and can earn interest on the money until it is needed to pay expenditures of the current year.
2. The general fund can earn approximately 2% on the money it borrows.
3. Accounting work for the school districts, treasurers and county superintendents is greatly simplified. The present practice demands constant adjustment due to delinquent and protested taxes. Under the proposed practice, the amount collected for the 55 mills would be deposited with the state treasurer. Subsequent collections distributed to the 55 mills (vehicle fees) would be treated the same way, eliminating the need to account for taxes paid in prior years.

4. PL-81-874 districts can report a higher local effort since the amount advanced and spent for the 55 mills is not diminished by protested or delinquent taxes. This should allow them to receive more PL-81-874 funds.
5. PL-81-874 funds are not jeopardized, since the 55 mills are levied, and collected at the local level and used to repay an advance for local expenditures.

This concept was provided to the Department of Administration to determine if the necessary conditions would be met to generate any arbitrage from this proposal. The Department of Administration prepared a cash flow analysis for the General Fund under both scenarios - one with the state advancing the 55 mills to districts and one without any change to the current practice. The Department's response is attached for your information. Also attached is a recent letter to the Department of Administration from the State's financial advisor concerning TRANS. It appears sufficient revenue would be generated from this proposal to fund the OPI curriculum specialist mod and also provide an additional \$250,000 annually for gifted and talented programs.

EXHIBIT 2
DATE 2-7-91
HB Ed. & Over. per J.

DEPARTMENT OF ADMINISTRATION
ACCOUNTING AND MANAGEMENT SUPPORT DIVISION



STAN STEPHENS, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

Accounting Bureau
Rm. 255 (406) 444-3092

Management Support Bureau
Rm. 170 (406) 444-4644

Helena, Montana
59602-0102

TO: Kathy Fabiano, Administrator
Centralized Services Division
Office of Public Instruction

FROM: Chuck Virag *Chuck*
Administrator

DATE: January 31, 1991

SUBJECT: Arbitrage Earnings

As you requested I have prepared an analysis of the potential financial effects of changing the manner in which the county 55 mill levy is collected and distributed. The proposed change which is reflected in my analysis provides for the state's collection of this tax and the related distribution to the school districts. My analysis is based upon the following assumptions:

- 1) The timing and level of projected Fiscal Year 1991 General Fund receipts and disbursements are representative of Fiscal Years 1992 and 1993.
- 2) The timing and level of projected Fiscal Year 1991 Equalization Account receipts and disbursements are representative of Fiscal Years 1992 and 1993 assuming related current laws will also continue into the next biennium.
- 3) The county 55 mill levy will generate \$86 million in revenue. If these monies are deposited with the state, the state will receive equal payments of \$43 million in December and June, respectively. The analysis under this assumption includes a disbursement schedule for these monies developed by the Office of Public Instruction.
- 4) The current spread between the interest rate at which we can borrow and the rate at which we can invest will continue at 2 percent.
- 5) Debt issuance costs will remain at the Fiscal Year 1991 level.

- 6) The Internal Revenue Service's regulations regarding arbitrage will not become more restrictive in Fiscal Years 1992 and 1993. Currently the "safe harbor" provision provides that no arbitrage rebate is due pertaining to a debt issuance if the issuer achieves an actual cash deficit within six months of issuance of at least 90% of the par amount of the issue.

The following analysis reflects the potential arbitrage profit given the above assumptions:

Arbitrage Calculation

	<u>State Collects</u> <u>55 Mill Levy</u>	<u>State Does Not</u> <u>Collect 55 Mill Levy</u>
TRANS Issued:		
\$25 Mill. in October		
Arbitrage Interest		\$444,000
 \$50 Mill. in July		
Arbitrage Interest	\$1,203,742	
 Underwriter's Discount		
\$1.25/\$1,000	(\$ 62,500)	(\$31,250)
 Costs of Issuance	<u>(\$ 40,000)</u>	<u>(\$40,000)</u>
 Arbitrage Profit Earned	\$1,101,242	\$372,750

The analysis reflects that the potential arbitrage profit is significantly greater if the state receives and distributes the county 55 mill levy, given the assumptions noted above. I would like to express the following concerns regarding implementing a proposal that is based upon achieving an arbitrage profit:

- 1) The Internal Revenue Service (IRS) has shown a particular interest in restricting the ability of state and local governments to earn a profit through the issuance of tax free debt. It is very possible that the IRS will impose further restrictions in this area.
- 2) The spread between the interest rate at which we can borrow and the rate at which we can invest funds fluctuates. It is not safe to assume that we will always have a favorable 2% spread.

EXHIBIT 2
DATE 2-1-91
HB Ed. ~ Cur. Des. Sub.

Memorandum to Kathy Fabiano
Page 3

- 3) A factor in the State of Montana's favorable bond rating is that we do not regularly issue short-term debt to cover cash deficits. The routine issuance of such debt to cover cash deficits would eliminate this favorable factor.

Please contact me if you have any questions regarding this analysis.

Draft

Public Resources Advisory Group

3550 Wilshire Boulevard, Suite 1405

Los Angeles, California 90010

(213) 380-9344

MEMORANDUM

TO: Dave Ashley
Montana Department of Administration

FROM: Malcolm Jones
Public Resources Advisory Group

DATE: January 11, 1991

SUBJECT: Potential Tax and Revenue Anticipation Note Financing

The Department of Administration has forwarded to Public Resources Advisory Group ("PRAG") a General Fund Cash Flow Analysis for Fiscal Year 1991. We have been asked to review the analysis to see if an external cash flow borrowing makes economic sense. The State last publicly issued tax and revenue anticipation notes ("TRANS") in 1987. Since then any mismatch in receipts and disbursements resulting in cash flow deficits during a fiscal year were modest, infrequent, and addressed by internal borrowing.

A loan to the Foundation Program has created the situation where the State's General Fund now (and likely into the future) incurs interim cash flow deficits. The State has used internal borrowing to meet these deficits. Note that the State ends the fiscal year with a surplus.

In the current Fiscal Year, the State's General fund has loaned approximately \$60 million to the Foundation Program and in turn has borrowed \$50 million from the Highway Department's Fuel Tax Fund. Bill Johnstone of Dorsey & Whitney has indicated that, for purposes of meeting the "safe harbor" provision of the Tax Code, the loan to the Foundation Program can be treated as a proper expenditure and the loan to the Highway Department can be paid back from TRAN proceeds. The "safe harbor" provision provides that no arbitrage rebate is due pertaining to a TRAN program if the issuer achieves an actual cash deficit within six months of issuance of at least 90% of the par amount of the TRAN issue. Given the position taken by Dorsey & Whitney, the State could issue a TRAN in the range of \$50 million. State law requires that cash flow borrowings be fully repaid by the end of the fiscal year. The question is, would a TRAN issue of less than five months be economically beneficial to the State.

The State's policy is that interfund borrowing is done without interest charges. Thus the Foundation Program pays no interest to the General Fund on its borrowings and General Fund pays no interest to the Highway Department. We understand that any interest earned on the Highway Department's Fuel Tax Fund is credited to the General Fund. Assuming compliance with the safe harbor provision and current interest rates, the State could earn permissible arbitrage with an external borrowing. For our analysis we have assumed the following:

Public Resources Advisory Group

EXHIBIT 2
DATE 2-1-91
HB Ed. & Cur. Res. Sub.

Par amount	\$50 million
Underwriter's Discount	\$1.25 per \$1,000
Costs of Issuance	\$40,000
Delivery/Dated Date	February 5, 1991
Due Date	June 28, 1991
Rating	MIG-1
Interest Rate	4.5%
Investment Rate	6.5%

It is assumed that net proceeds are invested for the entire term since the State would either be earning money on the TRAN proceeds or on its other borrowable resources. Given the above assumptions, the State could earn approximately \$300,000 in permissible arbitrage profits.

Examiners

Please review the above assumptions and we'll talk about the proposed program when I am in Montana next week. If you support a TRAN borrowing, the Board of Investments could approve an authorizing resolution on January 22 and we could be in the market with a competitive sale of notes shortly thereafter. With the effects of HB28 (providing for increased State funding for schools from the General fund) scheduled to go into effect in the next fiscal year; it appears that an annual TRAN borrowing program will be advantageous to the State. Note that the rating agencies are comfortable with TRAN programs used for cash management but not if they reflect budget shortfalls.

cc: Chuck Virag
Bill Johnstone
Mae Nan Ellingson

EXHIBIT 3
DATE 2-1-91
HB Ed. & Curr. Div. Sub.

OFFICE OF PUBLIC INSTRUCTION
FOUNDATION PROGRAM INDIRECT COSTS

Estimated Administrative Costs:

Asst Superintendent/Operations -	\$ 100,000	
Accounting and Budgeting -	130,000	
GAAP/HB28	177,000	
Data Processing -	154,000	
Curriculum Assistance -	447,000	
Indian Education -	28,200	
A/V Library -	35,000	
Certification/Accreditation -	198,000	
Audiology -	278,000	
	<hr/>	
Total before budget mods.	\$ 1,547,200	(0.39% Indirect rate*)
Budget modifications:		
Accounting and Data Processing	230,000	
Curriculum Specialists	480,000	
	<hr/>	
Total after budget mods.	\$ 2,257,200	(0.57% Indirect rate*)

* THE INDIRECT RATE EQUALS ESTIMATED ADMINISTRATIVE COSTS DIVIDED BY OPI'S BUDGET REQUEST FOR FY92 STATE EQUALIZATION AID.

	Payment Schedule	55 Mills Payment	TRANS Issue	55 Mills Revenue	Revenue - Expend.	Ending Balance	Interest Earnings
		87.321000	41.914080	87.321000			0.020000
Jul	0.200000	-17.464200	41.914080	0.000000	24.449880	24.449880	0.055303
Aug	0.070000	-6.112470	0.000000	0.000000	-6.112470	18.337410	0.040750
Sep	0.070000	-6.112470	0.000000	0.000000	-6.112470	12.224940	0.030562
Ovt	0.070000	-6.112470	0.000000	0.000000	-6.112470	6.112470	0.020375
Nov	0.070000	-6.112470	0.000000	0.000000	-6.112470	-0.000000	0.010187
Dec	0.070000	-6.112470	0.000000	43.660500	37.548030	37.548030	0.000000
Jan	0.070000	-6.112470	0.000000	0.000000	-6.112470	31.435560	0.062580
Feb	0.070000	-6.112470	0.000000	0.000000	-6.112470	25.323090	0.052393
Mar	0.070000	-6.112470	0.000000	0.000000	-6.112470	19.210620	0.042205
APr	0.070000	-6.112470	0.000000	0.000000	-6.112470	13.098150	0.032018
May	0.070000	-6.112470	0.000000	0.000000	-6.112470	6.985680	0.021830
Jun	0.100000	-8.732100	-41.914080	43.660500	-6.985680	-0.000000	0.011643
	1.000000	-87.321000	0.000000	87.321000	-0.000000		0.379846

EXHIBIT 4
DATE 2-1-91
HB _____

HOUSE OF REPRESENTATIVES

EDUCATION SUBCOMMITTEE

ROLL CALL VOTE

DATE 3-1-91 BILL NO. _____ NUMBER _____

MOTION: Rep. Kadas moved to add
\$100,000 / yr. to the Gifted &
Talented Prog.

NAME	AYE	NO
REP. LARRY GRINDE		✓
SEN. DON BIANCHI	✓	
REP. MIKE KADAS	✓	
SEN. H.W. "SWEDE" HAMMOND		✓
SEN. GREG JERGESON, VICE CHAIRMAN	✓	
REP. RAY, PECK, CHAIRMAN		✓
TOTAL	3	3